



Comprehensive Annual Financial Report



City of Norfolk, Virginia

2017

Year Ended June 30, 2017



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**City of Norfolk, Virginia
Comprehensive Annual
Financial Report
For the Fiscal Year Ended
June 30, 2017**

**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, KPMG 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, 2017**

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**CITY OF NORFOLK, VIRGINIA
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June 30, 2017

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**

Deputy Manager
Deputy Manager
Acting Deputy Manager
City Attorney
City Auditor
City Clerk
City Real Estate Assessor
Acting City Treasurer
Registrar of Voters
Commissioner of the Revenue
Executive Director of Community Services Board
Director of Budget & Strategic Planning
Director of Communications & Technology
Director of Cultural Facilities, Arts & Entertainment
Director of Finance
Director of Economic Development
Director of Emergency Preparedness & Response
Director of Fire & Rescue
Director of General Services
Director of Human Resources
Acting Director of Human Services
Director of Libraries
Director of National Maritime Center (Nauticus)
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
Stephen Hawks
Bernard A. Pishko, Esquire
John H. Sanderlin, Jr., CPA
R. Breckenridge Daughtrey
William Marchand
Amelia Ortega
Stephanie Iles
C. Evans Poston, Jr.
Sarah Paige-Fuller
Gregory Patrick
Steven DeBerry
John S. Rhamstine
Christine Garczynski
Chuck Rigney
James Redick
Jeffrey Wise
David S. Freeman, AICP
Marva Smith
Denise Gallop
Sonal Rastogi
Stephen Kirkland
George Homewood
Larry Boone
Demetria Lindsay, M.D.
David L. Ricks, P.E.
Darrell Crittendon
Kristen M. Lentz, P.E.
Gregory Bockheim



CITY OF NORFOLK, VIRGINIA
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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

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

Norfolk Juvenile and Domestic Relations District Court

Chief Judge
Judge
Judge
Judge
Judge
Clerk

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

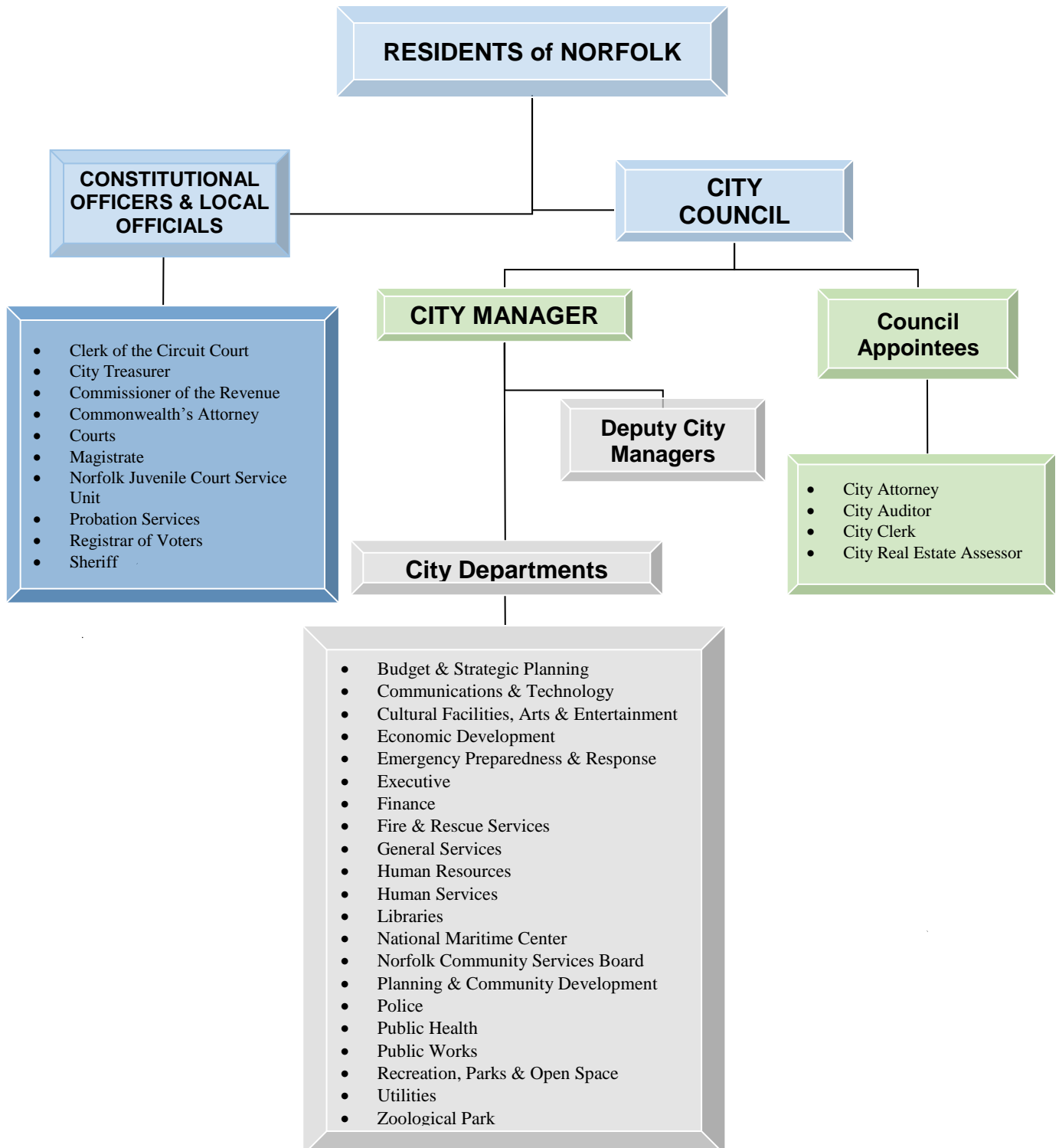
Other Judicial Officials

Commonwealth's Attorney
Interim Sheriff

Gregory D. Underwood
Joe Baron

CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2017

**ORGANIZATIONAL
CHART**



December 21, 2017

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, 2017, 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. 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 (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

Norfolk was established in August 1682 after a 1680 British Act ordered the establishment of a port town of 50 acres in each Virginia county. Norfolk was granted borough status in 1736 and was officially incorporated as a city in 1845. Norfolk derives its governing authority from a charter granted by the General Assembly of the Commonwealth of Virginia (the Commonwealth) in 1918, which authorizes a council-manager form of government. It is authorized to exercise all powers conferred upon the City by the Commonwealth of Virginia in the state constitution, state laws and the City Charter. 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 carries out 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. Effective June 27, 2017, City Council announced Douglas L. Smith as City Manager.

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 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.

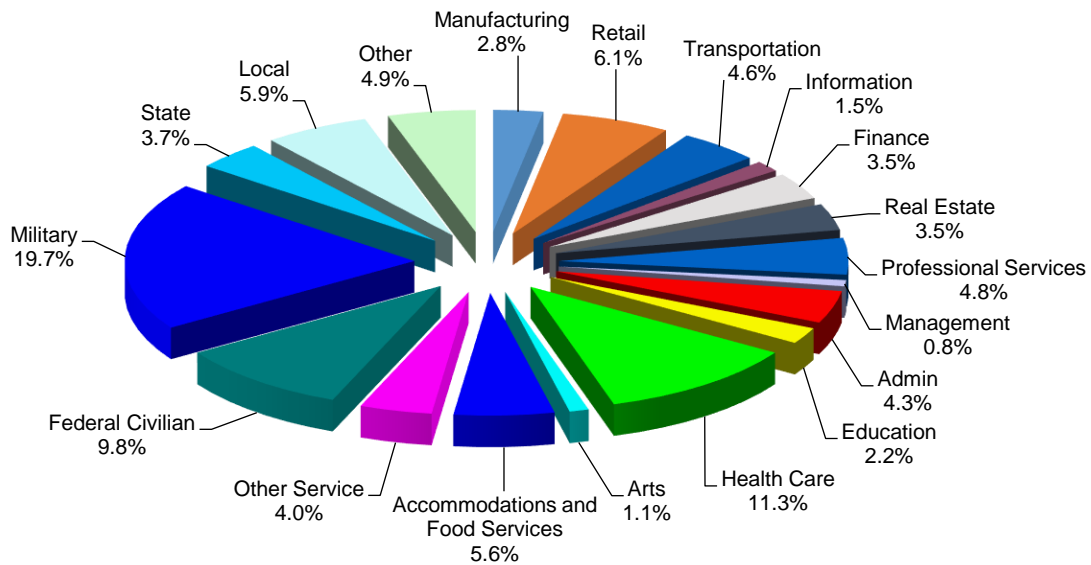
Budget Process

The Commonwealth of Virginia and the City Charter mandate a balanced budget. The City's annual operating budget is proposed by the City Manager, in accordance with the City Charter, at least 60 days before the end of each fiscal year, and is adopted by City Council at least 30 days before the close of the previous fiscal year. The budget is prepared by fund (e.g., general, special revenue, capital projects), function (e.g., public safety) and department (e.g., police). The City Manager or a designee is authorized to transfer resources between any fund, department or activity without further approval by City Council. The budget is regularly reviewed and operational adjustments are made as needed. The development of the fiscal year 2017 and 2018 budgets included thorough analysis of each budget action through a two-year lens to better assist the City in future fiscal planning. The fiscal year 2017 and 2018 budgets continued the focus of building a data-driven organization that provides effective and efficient programs and services with a focus on the priorities of: safe, healthy, and inclusive communities, well-managed government, public safety, education, and housing. Both fiscal year budgets were structurally balanced and reinforced the commitment to further strengthen the City's long-term financial sustainability.

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, it is also home to an economy with diverse corporate strength. As shown in the following chart, except for the military, no one sector comprises more than 12 percent of total employment. This diversity is especially important to act as a mitigating factor against the Federal Government's reduction in defense spending. In addition, the City continues to promote comprehensive urban revitalization, foster job growth and expand economic opportunities to enhance diversification while capitalizing on Norfolk's competitive advantage. 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.

Norfolk Employment by Sector



Source: Bureau of Economic Analysis, total full-time and part-time employment by North American Industry Classification System industry, for 2016; Total employment – 212,112.

With 212,112 jobs, Norfolk serves its role well as the 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, celebrating its centennial in 2017, with headquarters for Commander in Chief of U.S. Atlantic Command, NATO's Supreme Allied Command Atlantic, Commander in Chief U.S. Atlantic Fleet and other major naval commands. Hampton Roads is the largest center of Coast Guard units in the world with the Atlantic Area Command and Maritime Defense Zone Atlantic in Portsmouth and its Maintenance & Logistic Command Atlantic headquarters in downtown Norfolk.



According to the most recent data available to the City, the U.S. Navy's direct economic impact on the region was \$12.3 billion in fiscal year 2016, comprised of a total annual payroll

of \$10.1 billion and the balance consumed on goods and services and procurement contracts. 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 70,000, with an additional 5,700 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 Abraham Lincoln (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. More than 20 million tons of general cargo was shipped from the region's three main marine cargo terminals in calendar year 2016, an increase of 4.5 percent over 2015.



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. With the help of a \$350 million investment from the Commonwealth, the Port will renovate and reconfigure the area to move cargo more swiftly, through the area. When complete in 2020, the project will increase the terminal's annual capacity by 400,000 containers, or 46 percent.

Transportation

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

Norfolk International Airport

Norfolk International Airport is one of the most powerful economic generators in the Hampton Roads region. Designated as Virginia's first green airport, Norfolk International Airport is served by Allegiant Air, American Airlines, Delta, 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 and is estimated to serve over 3.2 million passengers 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.



Transportation Initiatives

The City's light rail system, the Tide, began operations in August 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 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.



Construction of the Downtown Tunnel/Midtown Tunnel/MLK Extension project was completed a year ahead of schedule in June 2017. This \$2.1 billion project was designed to create new connections between Norfolk and the City of Portsmouth and to improve the existing connections.

In 2013, construction began on the I-564 intermodal connector project. This \$176 million project is expected to alleviate congestion and improve transportation flow on City and naval station streets, when completed in fall 2018. This project is funded by the Commonwealth.

The Virginia Port Authority is creating a new intermodal gate complex at Norfolk International Terminals ("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 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. Norfolk public schools

have a low pupil-teacher ratio with class sizes below the national average.



The City is home to the Governor's Magnet School for the Arts, Virginia's only magnet school for the arts, which offers classes in performing or visual arts to approximately 300 students from six cities and two counties in its Downtown location in Norfolk on Granby Street in 2014.

Education remains a priority as the City 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. The first school replaced was Crossroads Elementary, which opened in 2012. Additionally, Campostella K-8 and Broad Creek Elementary School opened in September 2016 and Larchmont and Ocean View Elementary Schools opened in September 2017. Camp Allen will be the final school to open and will be completed in two phases. Phase 1 is



scheduled to be completed in October 2018 and Phase 2 in October 2019. 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 five institutions of higher learning: ODU, Norfolk State University, Virginia Wesleyan University, Tidewater Community College and Eastern Virginia Medical School. ODU is one of only 100 public research universities nationwide. Norfolk State University is Virginia's largest public, historically black university and one of the largest predominately black institutions in the nation. Located in Downtown, Tidewater Community College has five buildings, including the Jeanne and George Roper Performing Arts Center. Eastern Virginia Medical School, dedicated solely to biomedical and health education, has an economic impact on the regional economy of \$824 million annually.

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"). Sentara Norfolk General is home to the region's heart hospital and only Level 1 trauma center. Sentara Norfolk General Hospital embarked in 2016 on a \$199 million expansion and modernization project 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.

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. 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.

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.

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

Residential Development

Neighborhood revitalization is one of the City's core initiatives and part of the economic development plan. By increasing the diversity of housing opportunities, the City expects to increase the diversity of its citizenry and expand the tax base. The City's goal for neighborhood and commercial development is to provide an environment that 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 are currently under construction 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 is being converted into a 300-unit luxury apartment development called the Icon at CityWalk. 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. Other new residential



developments includes Atlas Flats in the Midtown area and 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 27-story River Tower will add 138 luxury residences and more than 95,000 square foot of common space.



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, 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.



Commercial Development

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 2019. 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, has 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 EDA, 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.

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 tourists. Norfolk's entertainment and theatre venues include the Attucks Theatre, the Harrison Opera House, Chrysler Museum, and the "Theater District" which includes Chrysler Hall, Jeanne and George Roper Theater, Wells Theatre and the NorVa.

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.



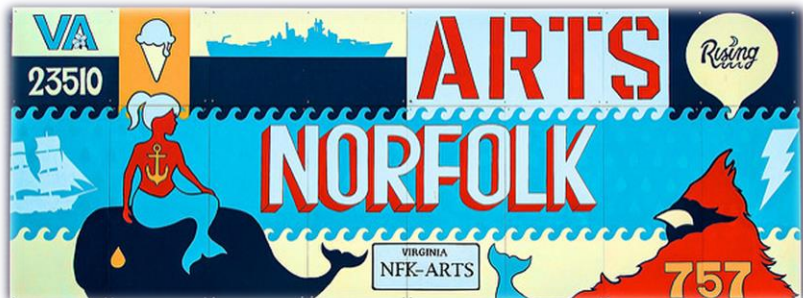
The Slover Library, the main public library, combines the historic integrity of the Seaboard Building and the retrofitted Selden Arcade, with a seamless expansion to a modern six-story addition creating a state-of-the-art, highly efficient library complex. The Slover's connectivity into the

Selden Arcade, nestled between The Main and the Slover, makes it an exciting, progressive and vibrant anchor in Downtown.



Arts District

The New Energy of Norfolk - or NEON - District is home to a new wave of passion and creativity in Downtown. Long time cultural institutions like the Chrysler Museum of Art and Harrison Opera House anchor the District while new art venues like Glass Wheel Studio and Work|Release provide artists a place to make, create and show. Since the birth of the NEON District, the City's Public Art Commission has seen new murals and sculpture projects multiply that enhance the street environment and bring life to the NEON District. Restaurants, retail shops and a comedy theater dot the streets of the district.



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, which is located across the street from Chrysler Hall, 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.



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 2017. The \$164 million public/private Downtown project includes 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. It was developed by Gold Key PHR Hotels and Resort.



The City has also announced the development of an Autograph Collection Marriott hotel, a boutique hotel to be located at the 200 block of Granby Street in the former Royster building. The \$27 million investment will have a glass art theme, and is expected to open in 2018.



Public Safety

This City's new courthouse complex will house the General District, Circuit, and Juvenile and Domestic Relations Courts. The complex is being 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 a Phase II addition. Phase II is underway and is estimated to be completed in summer 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 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 as many as nine businesses and restaurants, including a live performance stage and roof top deck.



Norfolk's strong, diverse and stable economy, paired with the current developments, are expected to add almost 6,000 new jobs between now and 2018.

Sports and Recreation

Norfolk is home to the Norfolk Tides, a AAA minor league baseball team (the "Tides"). In September 2014, the Tides and Baltimore Orioles renewed their predevelopment agreement through the end of the 2018 season. The Tides renewed their 15-year lease at Harbor Park in December 2013. Norfolk is also home to the Norfolk Admirals, an East Coast Hockey League affiliate of the National Hockey League's (NHL) Nashville Predators. 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 2013. The Financial Policies provide that the City should strive to achieve a structurally balanced budget, and establish and maintain reserves. The City achieved structural balance in budget in Fiscal Year 2015 and has since maintained structural balance in the budgets ever sense.

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) 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 2016 and has maintained the maximum balance through Fiscal Year 2017.

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 high credit ratings for a local government for its general obligation bonds: 'Aa2' by Moody's Investors Service, 'AA+' by S&P Global Ratings and 'AA+' from Fitch Ratings. S&P Global Ratings boosted Norfolk's ratings outlook from stable to positive, while Fitch Ratings ("Fitch") and Moody's Investors Service ("Moody's") affirmed the City's strong credit rating, with an assigned 'stable' outlook in October 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. Debt Capacity Schedules in 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.

Some of the key 2017 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

BUILDING
A WELL-MANAGED
GOVERNMENT



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 2017 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. Initiatives that are currently underway include:

- BasicGov online permitting;
- Increasing electric vehicle charging stations;
- GIS data and mapping;
- Smart parking meters;
- Smart Processing;
- STORM weather event analysis;
- TITAN storm surge tracking;
- Increasing public connectivity; and
- Increase public Wi-Fi availability.

In support of the Smart City initiative, in fiscal year 2017 \$4.1 million was allocated to expand broadband and free public Wi-Fi access to enhance connectivity across the City.



Broadband technology is becoming ever more necessary to connect in today's digital world. Many City departments currently rely on high speed internet to ensure effective delivery service for residents. To ensure continued broadband access, in fiscal year 2017 \$3.6 million was designated to replace and upgrade end of life broadband equipment (nodes) and install fiber. The nodes are a technology backbone that encircles the City and helps provide data at broadband speed to city facilities. City-owned fiber will connect facilities to the city's broadband network, replacing the fiber that is currently being leased. This also creates an opportunity to increase competition among internet providers and decrease cost for businesses.

The overall investment creates capacity for us to partner with schools to ensure low-cost, reliable broadband access. Additionally, we will be able to increase broadband accessibility and bandwidth for residents in the City's many libraries and community centers to ensure that everyone can benefit from the abundance of opportunities available online. This also allows for partnerships with non-profit and the private sector to help the city pilot projects to bring broadband service to businesses, schools, and residents.



Finally, MacArthur Square and Town Point Park will provide free Wi-Fi to visitors beginning in the summer of 2016. Expanded Wi-Fi in public libraries will be a phased approach, targeting the areas of the city most in need of free, reliable internet service.

Becoming an Employer of Choice - Attraction, Retention, Motivation and Development (ARMD) Initiative

Recruiting and retaining qualified employees is key to an efficient, effective, and responsive government. In fiscal year 2015, a three-year initiative was implemented to address the most critical issues impacting employee recruitment and retention. Phase I of the initiative was fully

implemented in January 2015, Phase II was implemented in January 2016 and the Phase III in January 2017. This initiative was primarily built around addressing pay inequities, addressing poverty, and improving employee compensation both now and in retirement.

Having comparable salaries to other regional cities is a priority of ARMD. Regional salary comparisons are done annually and salary ranges are adjusted accordingly. Making these adjustments annually allow the City to maintain its competitive advantage.

Aside from regional inequities, the initiative focused on poverty reduction. In fiscal year 2015, for the first time, Norfolk instituted a permanent employee living wage aligned with the federal poverty rate for a family of four. In fiscal year 2016 and fiscal year 2017, an adjustment to the living wage minimum provided an additional average of \$400 and \$380, respectively, per eligible employee.

In addition to specific initiatives to combat regional inequity and poverty, Phase II and III also included a two percent general wage increase for general and Constitutional Officer employees. Phase III included the implementation of a redesigned Police and Fire-Rescue compensation plan and included a step increase for sworn Sheriff employees.

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 are 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. 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:

#27 Best Fleets in North America, *National Automotive Fleet Association*, 2017; **Top 10 Digital City (Population 125,000 to 249,999)**, *the Center for Digital Government's*, 2016; **Ranked 2nd for Friendliest City in USA**, *Travel and Leisure*, 2016; **Ranked 1st in Best Place in Virginia to Own a Home**, *SmartAsset*, 2017; **Ranked 4th Among Top Charming Cities in the South**, *CNN Travel*, 2017; **Top 50 Best Places to Travel**, *Travel and Leisure*, 2017; **Norfolk Selected to Participate in What Works Cities Initiative**, *Bloomberg Philanthropies*, 2017; **Granby Street Named "8 Amazing American Streets You've Never Heard Of"** *New York Posts*, 2017; **Norfolk Named "8 U.S. Solo Travel Destinations You Probably Haven't Thought Of"** *Glamour*, 2017; **Received The Silver Excellence in Economic Development Award**, *International Economic Development Council*, 2017. **Norfolk Fiscal Year Employees' Retirement System Received 12th consecutive GFOA recognition for its CAFR**, *Government Finance Officers Association of the United States and Canada*, 2017; **Norfolk Fiscal Year 2017 Distinguished Budget Presentation Award**, *Government Finance Officers Association of the United States and Canada*, 2017.

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 KPMG LLP. As a result of an audit of the City's financial records, KPMG LLP has issued an unmodified opinion with respect to the City's financial statements for the year ended June 30, 2017. 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, 2016. This was the 31st 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 2017 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 KPMG 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, 2016

Executive Director/CEO

**CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2017**

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





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KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

The Honorable Members of the 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specifications for Audits of Counties, Cities, and Towns* (Specifications) issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards 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.

Opinion

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, 2017, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis as listed in the accompanying table of contents, the schedule of funding progress for Other Post-Employment Benefit Plans, the schedule of changes in net pension liability and related ratios, schedules of contributions, and budgetary comparison schedules as listed under the caption "Required Supplementary Information" in the accompanying table of contents 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.

Supplementary and Other Information

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

The Other Supplementary Information is the responsibility of management and 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 Other Supplementary Information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2017 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 the City's internal control over financial reporting and compliance.

KPMG LLP

Norfolk, Virginia
December 21, 2017

**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, 2017

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, 2017. 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 2017 by \$690,885,405 (net position). Of this amount, there is a negative unrestricted net position of \$64,776,651. Total net position increased by \$26,525,572 and unrestricted net position increased by \$3,022,941 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 (deficit) of \$43,242,551, an increase of \$22,880,223 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 \$139,471,766 in general obligation bonds in fiscal year 2017. There is a negative unassigned total governmental fund balance of \$121,150,085 on June 30, 2017.
- The General fund, on a current financial resources basis, reported an increase in fund balance of \$8,332,165 from the prior year.
- At the end of the current fiscal year, the total unassigned fund balance for the general fund was \$70,652,059, or 8.5 percent of the original General fund budget.
- The City's total outstanding bonded indebtedness increased by \$59,284,901 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, 2017

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, 2017

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 66 - 68 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 57 - 60 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, 2017

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 2017. 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 61 – 63 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 64 - 65 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 71.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's Net Pension Liability and other post-employment benefits to its employees. Required supplementary information can be found on pages 145 – 157 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented on pages 163 - 164 and 167 -169, respectively, of this report.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2017

Government-Wide Financial Analysis

Over time, net position may serve as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$690,885,405 at the close of fiscal year 2017.

By far, the largest portion of the City's net position, \$708,383,585 or 102.5 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 6.8 percent represent resources that are subject to external restrictions on how they may be used. The negative balance of \$64,776,651 of unrestricted net position is due to the adoption of GASB 68 and the recognition of the net pension liability to the City's employee retirement system and the Virginia retirement system.

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$ 246,796,261	\$ 223,744,815	\$ 148,693,080	\$ 161,635,530	\$ 395,489,341	\$ 385,380,345
Capital Assets	1,199,901,330	1,156,366,101	1,008,227,591	976,794,848	2,208,128,921	2,133,160,949
Total Assets	1,446,697,591	1,380,110,916	1,156,920,671	1,138,430,378	2,603,618,262	2,518,541,294
Deferred Outflows of Resources	100,730,698	48,544,657	24,260,561	16,788,083	124,991,259	65,332,740
Total Deferred Outflows of Resources	100,730,698	48,544,657	24,260,561	16,788,083	124,991,259	65,332,740
Total Assets and Deferred Outflows of Resources	\$ 1,547,428,289	\$ 1,428,655,573	\$ 1,181,181,232	\$ 1,155,218,461	\$ 2,728,609,521	\$ 2,583,874,034
Long-Term Liabilities	\$ 954,893,541	\$ 1,072,977,418	\$ 682,081,649	\$ 713,598,291	\$ 1,636,975,190	\$ 1,786,575,709
Other Liabilities	325,568,852	88,017,114	60,346,905	21,381,005	385,915,757	109,398,119
Total Liabilities	1,280,462,393	1,160,994,532	742,428,554	734,979,296	2,022,890,947	1,895,973,828
Deferred Inflows of Resources	13,554,031	22,075,587	1,279,138	1,464,786	14,833,169	23,540,373
Total Deferred Inflows of Resources	13,554,031	22,075,587	1,279,138	1,464,786	14,833,169	23,540,373
Total Liabilities and Deferred Inflows of Resources	\$ 1,294,016,424	\$ 1,183,070,119	\$ 743,707,692	\$ 736,444,082	\$ 2,037,724,116	\$ 1,919,514,201
Net Position:						
Net Investment in Capital Assets	365,913,403	386,640,698	342,470,182	301,339,948	708,383,585	687,980,646
Restricted	12,041,423	12,412,160	35,237,048	31,766,619	47,278,471	44,178,779
Unrestricted	(124,542,961)	(153,467,404)	59,766,310	85,667,812	(64,776,651)	(67,799,592)
Total Net Position	\$ 253,411,865	\$ 245,585,454	\$ 437,473,540	\$ 418,774,379	\$ 690,885,405	\$ 664,359,833

For governmental activities, total net position increased by \$7,826,411 or 3.2 percent overall during the current fiscal year. Factors that contributed to the change in total

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2017

governmental net position include an increase in deferred outflows of resources offset by increases in long-term liabilities primarily pension expense.

For business-type activities, net position increased by \$18,699,161 or 4.5 percent during the fiscal year. Of this amount, an increase of \$13,322,892, \$5,824,506, and a decrease of \$448,237 are changes attributed to the Water Utility, Wastewater Utility and Parking Facilities funds, respectively. Overall revenues increased by \$5,907,138 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.

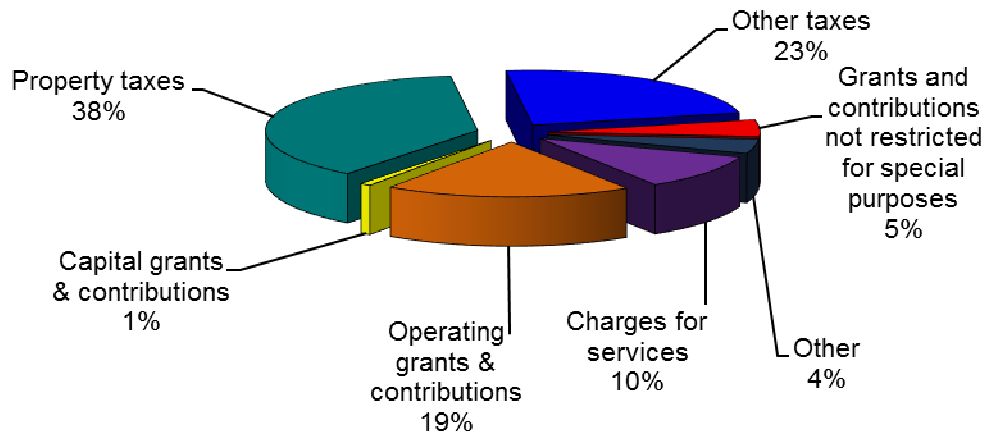
The following presents key programmatic and functional elements of changes in government-wide net position:

Changes in the City of Norfolk's Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues:						
Charges for Services	\$ 74,932,416	\$ 76,753,079	\$ 134,170,141	\$ 128,183,788	\$ 209,102,557	\$ 204,936,867
Operating Grants & Contributions	135,193,939	132,611,088	-	-	135,193,939	132,611,088
Capital Grants & Contributions	5,941,421	5,672,118	188,476	337,654	6,129,897	6,009,772
General Revenues:						
Property Taxes	271,460,824	263,395,351	-	-	271,460,824	263,395,351
Other Taxes	169,538,978	166,033,611	-	-	169,538,978	166,033,611
Grants and Contributions not restricted for specific purposes	36,440,122	34,863,429	-	-	36,440,122	34,863,429
Other	31,027,100	16,684,723	2,809,403	2,739,440	33,836,503	19,424,163
Total Revenues	724,534,800	696,013,399	137,168,020	131,260,882	861,702,820	827,274,281
Expenses:						
General Government	155,158,869	130,549,665	-	-	155,158,869	130,549,665
Judicial Administration	55,547,417	51,926,496	-	-	55,547,417	51,926,496
Public Safety	133,377,565	119,827,879	-	-	133,377,565	119,827,879
Public Works	80,825,192	79,200,166	-	-	80,825,192	79,200,166
Health and Public Assistance	89,102,636	85,730,329	-	-	89,102,636	85,730,329
Culture and Recreation	62,996,097	60,064,216	-	-	62,996,097	60,064,216
Community Development	15,402,399	16,733,929	-	-	15,402,399	16,733,929
Education	114,971,922	114,768,522	-	-	114,971,922	114,768,522
Interest on Long-Term Debt	19,326,292	22,950,501	-	-	19,326,292	22,950,501
Water Utility	-	-	65,319,522	59,414,650	65,319,522	59,414,650
Wastewater Utility	-	-	22,071,798	19,225,868	22,071,798	19,225,868
Parking Facilities	-	-	21,077,539	20,650,568	21,077,539	20,650,568
Total Expenses	726,708,389	681,751,703	108,468,859	99,291,086	835,177,248	781,042,789
Increase (decrease) in Net Position before Transfers	(2,173,589)	14,261,696	28,699,161	31,969,796	26,525,572	46,231,492
Transfers	10,000,000	10,000,000	(10,000,000)	(10,000,000)	-	-
Increase (decrease) in Net Position	7,826,411	24,261,696	18,699,161	21,969,796	26,525,572	46,231,492
Net Position Beginning of Year	245,585,454	221,323,758	418,774,379	396,804,583	664,359,833	618,128,341
Net Position End of Year	\$ 253,411,865	\$ 245,585,454	\$ 437,473,540	\$ 418,774,379	\$ 690,885,405	\$ 664,359,833

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2017

Governmental Activities: Revenues by Source



Governmental Activities – The City's total revenues from governmental activities were \$724,534,800 for the fiscal year that ended June 30, 2017. The largest sources of revenue for the City are property taxes and other taxes which comprise 61 percent of total governmental revenues. Revenues from property taxes, which are comprised of personal and real estate taxes, increased by \$8,065,473 compared to prior year. The real estate (general tax) tax rate for fiscal year 2017 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 \$3,505,367 or 2.1 percent in comparison to the prior year. Other taxes include sales & use, consumers' utility, restaurant food, business license and hotel/motel taxes.

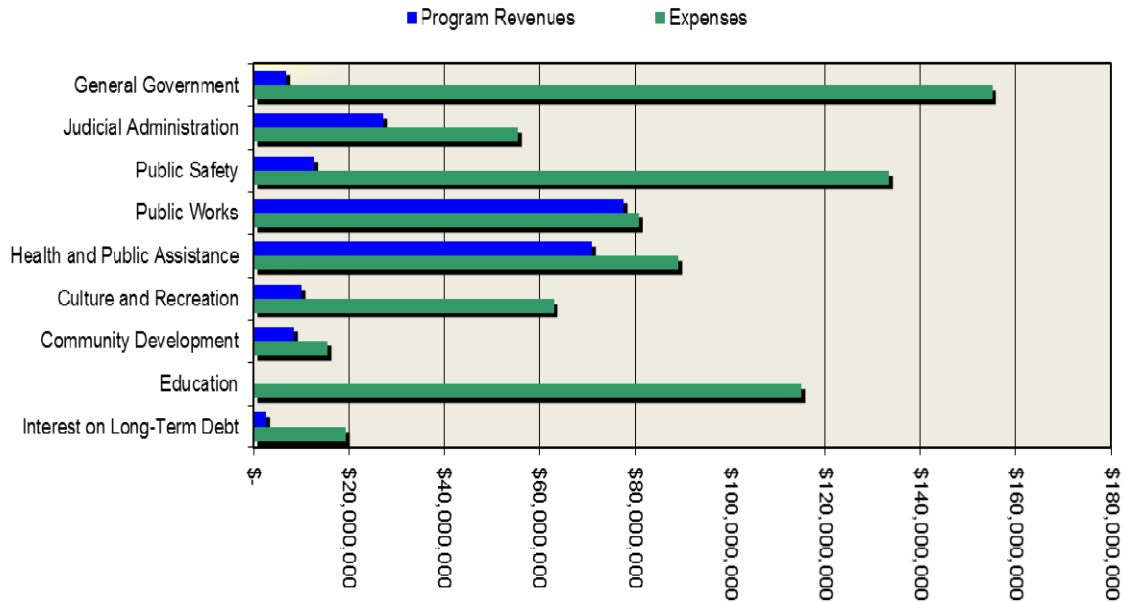
Operating grants and contributions for governmental activities ended the fiscal year at \$135,193,939 which represents an increase of approximately 1.9 percent from the prior year. For the 2017 fiscal year, there was \$36,440,122 in grants and contributions not restricted for specific programs which represents an increase of approximately 4.5 percent from the prior year. Other revenue increased by \$14,342,377 or 86.0 percent primarily due to infrastructure of \$11,752,510 being contributed to the City from the EDA during fiscal year 2017.

The City's expenses for governmental activities cover a wide array of services, with \$133,377,565 or 18.4 percent related to public safety, \$155,158,869 or 21.4 percent related to general government and \$114,971,922 or 15.8 percent for education, (including payments to the School Board, a component unit). Overall, expenses for governmental activities increased by 6.6 percent primarily due to cost of living increases as well as an increase in pension expense.

Depreciation expense for governmental activities of \$45,660,779 was recorded.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2017

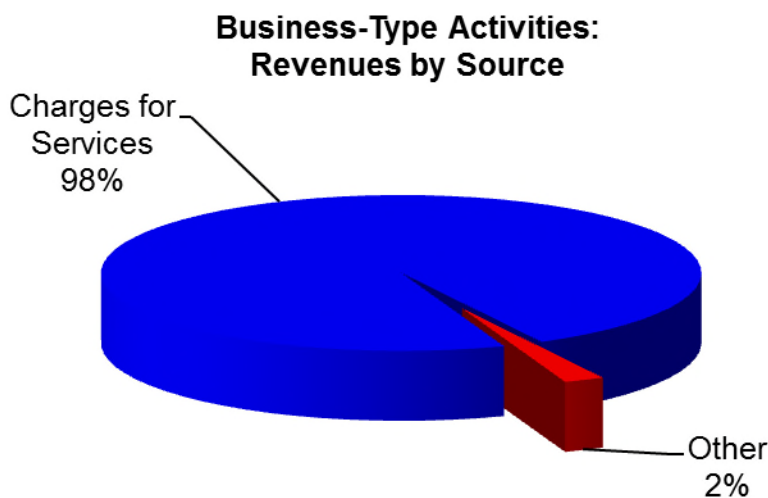
Governmental Activities
Expenses and Program Revenues



CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2017

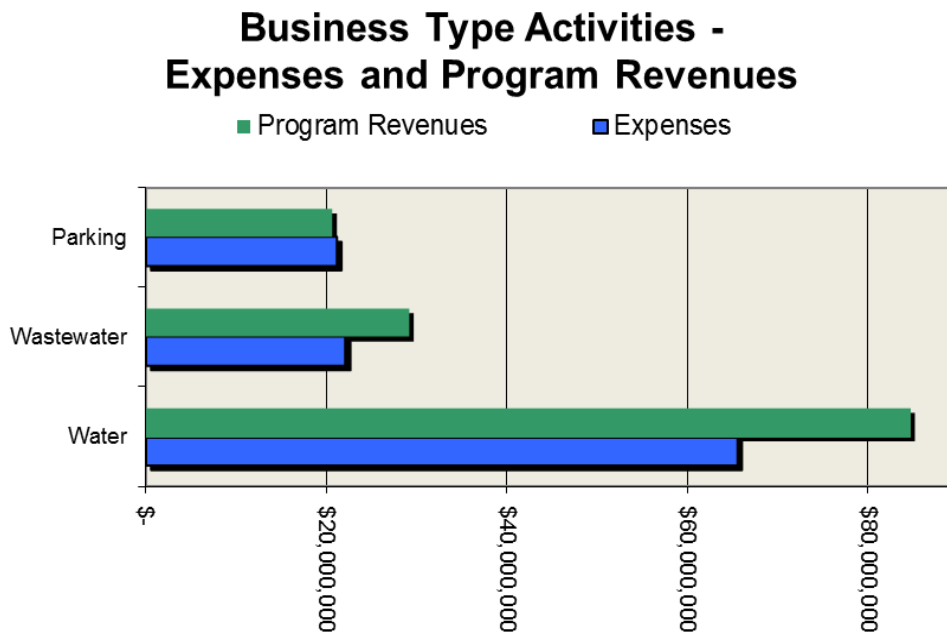
Business-type Activities – Business-type activities increased the City's net position by \$18,699,161. Key elements of this change are as follows:

- Revenue from charges for services for business-type activities increased by 4.7 percent. Water Utility charges for services increased \$3,779,975 and Wastewater Utility charges for services increased \$1,241,670.
- Parking Facilities revenues increased \$964,708 or 4.9 percent from the prior year.



Total operating expenses for business-type activities increased overall by \$8,677,170 or 10.7 percent. The Water Utility fund's expenses increased by \$5,429,516. The Wastewater Utility fund's expenses increased by \$2,745,465. The Parking Facilities fund's expenses increased by \$502,189.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2017



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 (deficit) of \$43,242,551, an increase of \$22,880,224 over the prior year due to timing of the issuance of bonds. Of the total ending fund balance, \$6,387,738 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 \$14,569,628

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2017

of total ending fund balance and represents amounts within fund balance that have been designated for a specific purpose by City Council. Included in this classification are amounts designated by City Council for the City's self-insured workers' compensation and general liability programs. Assigned fund balance is \$56,950,168 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 \$121,150,085 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 \$41,752,118 for fiscal year 2017.

For the general fund, on the budgetary basis of accounting, the City ended the fiscal year with revenues under projections by \$430,947. Total expenditures were less than appropriations by \$21,880,723.

The general fund experienced an overall increase in revenue of \$10,120,582 or 1.7 percent over the prior year. Overall expenditures increased by \$16,802,480 or 3.2 percent from fiscal year 2016. General fund financial and budget highlights of the 2017 fiscal year include:

- General property tax revenues increased by \$3,473,249 or 1.3 percent
- Other local tax revenues increased by \$3,287,256 or 2.1 percent; and
- General government expenditures increased by \$5,517,744 or 4.9 percent.

The City spent \$96,835,827 from the Capital Projects fund to support major capital projects, including construction of the second phase of the new courthouse, five new schools, repairs to City and School buildings, infrastructure and neighborhood improvements. The fund had a total fund balance (deficit) of \$190,870,542, primarily due to the use of a line of credit rather than issuing bond proceeds to finance all capital expenditures. In fiscal year 2017, 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 \$8,000,000 was drawn from 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, 2017

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, 2017, totaled \$708,383,585. 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 17.1 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 \$12.4 million;
- \$14.1 million spent on the construction of the new conference center;
- \$4.4 million for construction of the new Broad Creek library;
- \$3.9 million in improvements to neighborhood streets throughout the City; and
- \$28.2 million for new school construction.

Construction in progress totaled \$156.9 million for governmental activities at the end of the fiscal year. Construction in progress totaled \$52.2 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	
	2017	2016	2017	2016	2017	2016
Land	\$ 98,580,920	\$ 98,420,420	\$ 49,812,941	\$ 49,387,123	\$ 148,393,861	\$ 147,807,543
Buildings, equipment and vehicles	666,802,310	562,821,015	887,437,994	817,650,156	1,554,240,304	1,380,471,171
Improvements other than buildings	71,557,332	61,947,373	15,053,011	15,458,260	86,610,343	77,405,633
Construction in progress	156,944,974	235,093,416	52,180,462	90,556,126	209,125,436	325,649,542
Intangible assets	715,190	881,021	3,743,183	3,743,183	4,458,373	4,624,204
Infrastructure	205,300,604	197,202,856	-	-	205,300,604	197,202,856
Total	<u>\$ 1,199,901,330</u>	<u>\$ 1,156,366,101</u>	<u>\$ 1,008,227,591</u>	<u>\$ 976,794,848</u>	<u>\$2,208,128,921</u>	<u>\$2,133,160,949</u>

Additional information on the City's capital assets can be found in Note VI on pages 94 - 96 of this report.

Long-term Debt – At June 30, 2017, the City (including the enterprise funds) had total bonded debt outstanding of \$1,438,443,781. Of this amount, \$1,055,798,733

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2017

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	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 611,875,024	\$ 570,456,274	\$ 244,032,413	\$ 225,811,662	\$ 855,907,437	\$ 796,267,936
Line of Credit	189,802,546	175,289,003	10,088,750	16,710,997	199,891,296	192,000,000
Revenue bonds	-	-	382,645,048	390,890,944	382,645,048	390,890,944
Total	<u>\$ 801,677,570</u>	<u>\$ 745,745,277</u>	<u>\$ 636,766,211</u>	<u>\$ 633,413,603</u>	<u>\$ 1,438,443,781</u>	<u>\$ 1,379,158,880</u>

The City's total debt outstanding increased by \$59,284,901 or 4.3 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, 2017

valuation. The City's general obligation debt outstanding is significantly below the City's current debt limitation of \$1,943,388,902.

Additional information on the City's long-term debt can be found in Note IX on pages 98 - 105 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 fifth straight year. Residential assessments which make up the majority of overall real estate assessments are projected to rise for the fourth 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 2018 budget as in prior years.
- Taxable real estate assessments are projected to rise slightly in the 2018 fiscal year by 1.7 percent.
- The following reflects major other tax change projections in comparison to the fiscal year 2017 budget:
 - Hotel taxes – 6.5 percent increase;
 - Restaurant food taxes – 4.7 percent increase; and
 - Personal property taxes – 6.7 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 2018. The fiscal year 2017 operating budget includes transfers in from non-general funds of approximately \$16.9 million and carrying forward prior year unspent appropriations, closeout of accounts and proceeds from the sale of land not budgeted in fiscal year 2017 of approximately \$11.9 million.

CITY OF NORFOLK, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Fiscal Year Ended June 30, 2017

There were no changes to tax rates in fiscal year 2018. The following table represents changes in the Storm Water, Wastewater and Water Utility fees implemented with the City's fiscal year 2018 budget.

Description	FY 2018 Approved	FY 2017 Approved
Wastewater Fees	\$4.13/100 cubic feet	\$3.97/100 cubic feet
Water Fees	\$4.93/100 cubic feet	\$4.77/100 cubic feet
Stormwater Fees – Residential	\$12.40/month	\$12.13/month
Stormwater Fees – Commercial	\$9.46/month per 2,000 sq. ft.	\$8.95/month per 2,000 sq. ft.
Refuse Disposal – Residential Single or Multiple Units (4 or less)	\$28.01/unit/month	\$28.01/unit/month
Refuse Disposal – Residential Multiple Units (5 or more)	\$46.94/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, 2017

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, 2017

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and short-term investments	\$ 120,917,605	\$ 104,010,845	\$ 224,928,450	\$ 39,272,511
Receivables, net:				
Taxes	42,999,188	-	42,999,188	-
Accounts	14,091,117	18,967,027	33,058,144	8,394,184
Accrued investment income	22,333	6,907	29,240	-
Internal balances	28,050,894	(28,050,894)	-	-
Due from other governments	39,604,038	-	39,604,038	23,511,826
Due from primary government	-	-	-	1,513,728
Due from other agencies	-	-	-	-
Inventories	-	3,786,306	3,786,306	1,301,802
Deposits	4,854	-	4,854	-
Property held for resale	-	-	-	5,450,263
Prepaid items	1,101,232	46,490	1,147,722	184,342
Restricted cash and investments	5,000	49,926,399	49,931,399	1,036,956
Non-depreciable capital assets	255,590,908	104,467,964	360,058,872	1,962,141
Depreciable capital assets, net	944,310,422	903,759,627	1,848,070,049	25,691,078
Total assets	\$ 1,446,697,591	\$ 1,156,920,671	\$ 2,603,618,262	\$ 108,862,460
Deferred outflows of resources				
Related to pensions	\$ 79,748,087	\$ 7,323,876	\$ 87,071,963	\$ 51,425,719
Loss on defeasance of bonds	20,982,611	16,936,685	37,919,296	-
Total deferred outflow of resources	100,730,698	24,260,561	124,991,259	51,425,719
Total assets and deferred outflows of resources	\$ 1,547,428,289	\$ 1,181,181,232	\$ 2,728,609,521	\$ 160,288,179
LIABILITIES				
Vouchers payable	\$ 27,161,212	\$ 10,702,444	\$ 37,863,656	\$ 6,822,736
Employees withholdings	2,334,892	-	2,334,892	-
Contract retainage	7,371,375	2,228,184	9,599,559	19,200
Accrued interest	8,730,739	5,911,530	14,642,269	-
Accrued payroll	4,754,560	367,345	5,121,905	36,930,206
Due to other governments	36,253	-	36,253	8,838,647
Due to primary government	-	-	-	432,478
Due to component unit	1,513,728	-	1,513,728	-
Other Payables	9,475,397	-	9,475,397	8,007,530
Unearned revenue	6,730,445	-	6,730,445	577,573
Other current liabilities	6,786,007	467,594	7,253,601	602,724
Line of credit	189,802,546	10,088,750	199,891,296	-
Long-term liabilities:				
Due within one year	60,871,698	30,491,058	91,362,756	7,391,260
Net pension liability	257,677,186	23,874,694	281,551,880	350,483,940
Due in more than one year	697,216,355	658,296,955	1,355,513,310	35,915,377
Total liabilities	\$ 1,280,462,393	\$ 742,428,554	\$ 2,022,890,947	\$ 456,021,671
Deferred inflows of resources				
Related to pensions	\$ 13,327,060	\$ 1,259,573	\$ 14,586,633	\$ 22,378,528
Gain on defeasance of bonds	226,971	19,565	246,536	-
Total deferred inflows of resources	13,554,031	1,279,138	14,833,169	22,378,528
Total liabilities and deferred inflows of resources	\$ 1,294,016,424	\$ 743,707,692	\$ 2,037,724,116	\$ 478,400,199
NET POSITION				
Net investment in capital assets	\$ 365,913,403	\$ 342,470,182	\$ 708,383,585	\$ 14,968,219
Restricted for:				
Endowed care - nonexpendable	5,653,685	-	5,653,685	-
General government	165,000	-	165,000	-
Judicial administration	71,954	-	71,954	-
Public safety	329,959	-	329,959	-
Health and public assistance	32,929	-	32,929	-
Culture and recreation	5,769,639	-	5,769,639	-
Community development	18,257	-	18,257	-
Capital Projects	-	-	-	1,227,183
Water utility	-	26,914,782	26,914,782	-
Wastewater utility	-	67,130	67,130	-
Parking fund	-	8,255,136	8,255,136	-
Other Programs	-	-	-	9,557,617
Unrestricted	(124,542,961)	59,766,310	(64,776,651)	(343,865,039)
Total net position	\$ 253,411,865	\$ 437,473,540	\$ 690,885,405	\$ (318,112,020)
Total liabilities and net position	\$ 1,547,428,289	\$ 1,181,181,232	\$ 2,728,609,521	\$ 160,288,179

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

CITY OF NORFOLK, VIRGINIA
Statement of Activities
For the Year Ending June 30, 2017

Exhibit 2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Units	
					Governmental Activities	Business-Type Activities		Total
Primary government:								
Governmental activities:								
General government	\$ 155,158,869	\$ 4,822,174	\$ 1,902,779	\$ -	\$ (148,433,916)	\$ -	-	
Judicial administration	55,547,417	2,687,528	24,553,801	-	(28,306,088)	-	-	
Public safety	133,377,565	8,363,749	4,242,478	-	(120,771,338)	-	-	
Public works	80,825,192	40,322,372	31,376,021	5,941,421	(3,185,378)	-	-	
Health and public assistance	89,102,636	6,390,443	64,540,718	-	(18,171,475)	-	-	
Culture and recreation	62,996,097	9,835,391	185,319	-	(52,975,387)	-	-	
Community development	15,402,399	2,510,759	5,849,197	-	(7,042,443)	-	-	
Education	114,971,922	-	-	-	(114,971,922)	-	-	
Interest on long-term debt	19,326,292	-	2,543,626	-	(16,782,666)	-	-	
Total governmental activities	726,708,389	74,932,416	135,193,939	5,941,421	(510,640,613)	-	-	
Business-type activities:								
Water utility	65,319,522	84,529,095	-	188,476	-	19,398,049	-	
Wastewater utility	22,071,798	29,064,512	-	-	-	6,992,714	-	
Parking facilities	21,077,539	20,576,534	-	-	-	(501,005)	-	
Total business-type activities	108,468,859	134,170,141	-	188,476	-	25,889,758	-	
Total primary government	\$ 835,177,248	\$ 209,102,557	\$ 135,193,939	\$ 6,129,897	\$ (510,640,613)	\$ 25,889,758	\$ -	
Component units:								
Norfolk Public Schools	\$ 375,733,368	\$ 3,844,077	\$ 215,023,067	\$ 2,417,428	-	-	\$ (154,448,796)	
Norfolk Economic Development Authority	14,128,997	406,518	600,000	-	-	-	(13,122,479)	
Total component units	\$ 389,862,365	\$ 4,250,595	\$ 215,623,067	\$ 2,417,428	-	-	(167,571,275)	
General revenues:								
Taxes:								
General property taxes - real estate and personal property					271,460,824	-	-	
Consumption utility taxes					41,452,272	-	-	
Sales and use taxes					31,185,273	-	-	
Restaurant food taxes					34,933,514	-	-	
Business license taxes					30,557,116	-	-	
Hotel/Motel taxes					9,449,999	-	-	
Cigarette taxes					7,859,982	-	-	
Admissions taxes					3,960,369	-	-	
Motor vehicle licenses					4,642,494	-	-	
Franchise, recordation and other miscellaneous local taxes					5,497,959	-	-	
Use of money and property					249,223	431,689	1,460,783	
Gain on Investment					-	-	-	
Grants and contributions not restricted to specific programs					36,440,122	149,645	-	
Miscellaneous					30,777,877	2,228,069	1,642,333	
Commonwealth of Virginia					-	-	32,469,855	
Payment from Primary Government					-	-	116,088,355	
Transfers					-	-	-	
Total general revenues and transfers					10,000,000	(10,000,000)	-	
Changes in net position					518,467,024	(7,190,597)	151,661,326	
Net position - beginning					7,826,411	18,699,161	(15,909,949)	
Net position - ending					245,585,454	418,774,379	(302,202,071)	
					\$ 253,411,865	\$ 437,473,540	\$ (318,112,020)	
					\$ 690,885,405	\$ -	\$ (318,112,020)	

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, 2017**

	Major Funds			Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Capital Projects	Debt Service		
ASSETS					
Cash and short-term investments	\$ 64,748,035	\$ 12,461,310	\$ -	\$ 31,523,746	\$ 108,733,091
Receivables, net:					
Taxes	42,292,907	-	-	706,281	42,999,188
Accounts	5,541,572	-	-	7,084,212	12,625,784
Accrued investment income	2,498	-	-	19,835	22,333
Due from other funds	32,565,837	28,544,023	-	99,315	61,209,175
Due from other governments	23,958,912	5,941,421	-	8,912,699	38,813,032
Deposits	4,854	-	-	-	4,854
Restricted cash	-	-	-	5,000	5,000
Prepaid items	140,912	-	-	-	140,912
Total assets	<u>\$ 169,255,527</u>	<u>\$ 46,946,754</u>	<u>\$ -</u>	<u>\$ 48,351,088</u>	<u>\$ 264,553,369</u>
LIABILITIES, DEFERRED INFLOWS					
Vouchers payable	\$ 13,859,091	\$ 7,322,003	\$ -	\$ 5,346,508	\$ 26,527,602
Employee withholdings	2,334,892	-	-	-	2,334,892
Contract retainage	238,780	6,993,354	-	139,241	7,371,375
Accrued payroll	4,438,000	-	-	271,766	4,709,766
Notes payable	-	189,802,546	-	-	189,802,546
Due to other funds	35,183	32,185,665	-	937,434	33,158,282
Due to other governments	36,253	-	-	-	36,253
Due to component unit	-	1,513,728	-	-	1,513,728
Unearned revenue	-	-	-	6,730,445	6,730,445
Other liabilities	2,881,268	-	-	12,129	2,893,397
Total liabilities	<u>23,823,467</u>	<u>237,817,296</u>	<u>-</u>	<u>13,437,523</u>	<u>275,078,286</u>
Deferred Inflow of Resources					
Revenues levied for the next year and unavailable revenue	29,312,151	-	-	3,405,483	32,717,634
FUND BALANCES					
Nonspendable	-	-	-	-	-
Restricted	165,000	-	-	6,222,738	6,387,738
Committed	8,697,809	-	-	5,871,819	14,569,628
Assigned	36,605,041	-	-	20,345,127	56,950,168
Unassigned	70,652,059	(190,870,542)	-	(931,602)	(121,150,085)
Total fund balances	<u>116,119,909</u>	<u>(190,870,542)</u>	<u>-</u>	<u>31,508,082</u>	<u>(43,242,551)</u>
Total liabilities and fund balances	<u>\$ 169,255,527</u>	<u>\$ 46,946,754</u>	<u>\$ -</u>	<u>\$ 48,351,088</u>	<u>\$ 264,553,369</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, 2017

Exhibit A-2

Fund balances (deficit) - total governmental funds	\$	(43,242,551)
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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	\$	2,757,604,535	
Accumulated depreciation		(1,561,167,648)	
			1,196,436,887

Recognition of deferred inflows as revenue in government wide statements		32,717,634
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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		(13,184,994)	
Deferred outflows related to pensions		78,673,062	
Loss on defeasance		20,982,611	
Gain on defeasance		(226,971)	

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	(611,875,024)	
Unamortized bond premium	(53,065,997)	
Net pension liability	(254,616,212)	
Other post-employment benefits	(39,990,168)	
Compensated absences	(18,263,419)	
Workers' compensation and claims liability	(31,918,233)	
Prepaid debt service	960,321	
Other	(2,708,670)	
Accrued interest payable	(8,730,739)	
		(1,020,208,141)

Internal service funds		673,322
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Receivable for Build America Bonds - interest rate subsidy		791,006
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GASB Statement 49 Pollution Remediation Obligation		-
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Net position of governmental activities	\$	253,411,865
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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, 2017**

	Major Funds			Nonmajor	Total
	General	Capital	Debt	Governmental	Governmental
	Fund	Projects	Service	Funds	Funds
REVENUES					
General property taxes	\$ 264,432,379	\$ -	\$ -	\$ 5,384,000	\$ 269,816,379
Other local taxes	159,645,816	-	-	9,893,162	169,538,978
Permits and licenses	3,575,984	-	-	-	3,575,984
Fines and forfeitures	920,282	-	-	595	920,877
Use of money and property	7,639,462	56,108	-	90,649	7,786,219
Charges for services	22,533,193	-	-	39,781,647	62,314,840
Miscellaneous	9,343,122	-	-	2,736,588	12,079,710
Intergovernmental	134,737,064	5,941,421	-	36,105,991	176,784,476
Total revenues	602,827,302	5,997,529	-	93,992,632	702,817,463
EXPENDITURES					
Current operating:					
General government	118,578,346	-	-	8,788,689	127,367,035
Judicial administration	47,597,095	-	-	3,170,032	50,767,127
Public safety	110,633,381	-	-	10,860,677	121,494,058
Public works	25,088,325	-	-	38,142,361	63,230,686
Health and public assistance	70,240,871	-	-	17,089,123	87,329,994
Culture and recreation	42,545,409	-	-	2,279,158	44,824,567
Community development	10,785,452	-	-	4,208,467	14,993,919
Education	114,971,922	-	-	-	114,971,922
Debt service:					
Principal	-	-	50,663,318	-	50,663,318
Interest and other charges	-	-	27,149,634	-	27,149,634
Capital outlay	-	96,835,827	-	1,656,410	98,492,237
Total expenditures	540,440,801	96,835,827	77,812,952	86,194,917	801,284,497
Excess (deficiency) of revenues over expenditures	62,386,501	(90,838,298)	(77,812,952)	7,797,715	(98,467,034)
OTHER FINANCING SOURCES (USES)					
Proceeds of refunding bonds	-	-	49,377,986	-	49,377,986
Issuance of debt	-	90,093,781	-	-	90,093,781
Debt issuance costs	(174,276)	(676,154)	(255,716)	-	(1,106,146)
Proceeds sale of capital assets	6,079,647	-	-	-	6,079,647
Payment to bond refunding escrow agent	-	-	(55,684,503)	-	(55,684,503)
Premium on bonds	-	16,024,260	6,562,233	-	22,586,493
Transfers in	16,485,591	6,162,593	77,812,952	6,012,685	106,473,821
Transfers out	(76,445,298)	(1,326,330)	-	(18,702,194)	(96,473,822)
Total other financing sources and uses	(54,054,336)	110,278,150	77,812,952	(12,689,509)	121,347,257
Net changes in fund balances	8,332,165	19,439,852	-	(4,891,794)	22,880,223
Fund balances - beginning	107,787,744	(210,310,394)	-	36,399,876	(66,122,774)
Fund balances - ending	\$ 116,119,909	\$ (190,870,542)	\$ -	\$ 31,508,082	\$ (43,242,551)

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, 2017

Net change in fund balances--total governmental funds		\$ 22,880,223
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	\$ 90,929,101
	Subtract disposals	(1,804,690)
	Subtract depreciation expense	(45,402,101)
		43,722,310
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund.		2,228,164
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	(139,471,766)
	Add debt repayment	98,053,016
	Premium on bond sale	(22,586,493)
	Loss on defeasance of debt	3,288,885
	Gain on defeasance of debt	27,540
	Line of Credit	0
	Amortization of premiums, gains and losses	10,939,837
		(49,748,981)
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	(911,069)
	Retires life insurance	35,000
	Other post-employment benefits	(3,578,417)
	Unpaid claims	(2,621,658)
	Prepaid debt service	104,451
	Landfill closure	(32,643)
	Net Pension Liability, Net of changes in deferred inflows and outflows	(484,377)
	Accrued interest payable	(375,405)
		(7,864,118)
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.		(3,798,095)
Adjustment for federal interest rate subsidy		2,197
GASB Statement 49 Pollution Remediation Obligation		404,711
Change in net position of governmental activities		<u>\$ 7,826,411</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, 2017

	Business-Type Activities				Governmental Activities- Internal Service Funds
	Water Utility	Wastewater Utility	Parking Facilities	Total	
ASSETS					
Current assets:					
Cash and short-term investments	\$ 63,727,083	\$ 22,232,585	\$ 18,051,177	\$ 104,010,845	\$ 12,184,514
Restricted short-term investments	-	137	-	137	-
Receivables, net					
Accounts	8,060,439	3,043,328	1,795,796	12,899,563	1,465,333
Unbilled accounts	4,720,212	1,096,511	250,743	6,067,466	-
Accrued investment income	5,693	467	747	6,907	-
Inventories	3,086,452	19,711	680,143	3,786,306	-
Prepaid Expenses	46,490	-	-	46,490	-
Restricted cash and investments	26,914,782	10,861,922	12,149,558	49,926,262	-
Total current assets	106,561,151	37,254,661	32,928,164	176,743,976	13,649,847
Noncurrent assets:					
Capital assets:					
Non-depreciable capital assets	56,001,480	12,407,132	36,059,352	104,467,964	415,000
Depreciable capital assets	745,326,091	341,783,002	231,739,220	1,318,848,313	10,998,442
Accumulated depreciation	(240,030,840)	(87,882,851)	(87,174,995)	(415,088,686)	(7,949,001)
Capital assets, net	561,296,731	266,307,283	180,623,577	1,008,227,591	3,464,441
Total assets	\$ 667,857,882	\$ 303,561,944	\$ 213,551,741	\$ 1,184,971,567	\$ 17,114,288
Deferred outflows of resources					
Related to pensions	4,920,511	1,437,340	991,616	7,349,467	1,075,025
Loss on defeasance of bonds	8,375,879	3,100,306	5,460,500	16,936,685	-
Total deferred outflows	\$ 13,296,390	\$ 4,537,646	\$ 6,452,116	\$ 24,286,152	\$ 1,075,025
Total assets and deferred outflows of resources	\$ 681,154,272	\$ 308,099,590	\$ 220,003,857	\$ 1,209,257,719	\$ 18,189,313
LIABILITIES					
Current liabilities:					
Vouchers payable	\$ 7,826,321	\$ 2,526,747	\$ 349,376	\$ 10,702,444	\$ 632,105
Contract retainage	1,675,248	254,571	298,365	2,228,184	-
Accrued interest	2,620,905	1,177,444	2,113,181	5,911,530	-
Accrued payroll	242,426	73,264	51,655	367,345	44,794
Internal balances	12,950,430	289,782	14,810,682	28,050,894	-
Unearned Revenue	-	-	-	-	6,786,007
Current portion of bonds payable	13,860,000	11,287,328	4,278,099	29,425,427	-
Notes Payable	-	-	10,088,750	10,088,750	-
Liabilities payable from restricted assets	-	-	-	-	-
Compensated absences	702,592	218,002	145,037	1,065,631	153,741
Other current liabilities	393,344	74,250	-	467,594	6,583,504
Total current liabilities	40,271,266	15,901,388	32,135,145	88,307,799	14,200,151
Noncurrent liabilities:					
General obligation bonds payable	-	106,677,583	140,478,901	247,156,484	-
Revenue bonds payable	347,583,999	59,214,797	-	406,798,796	-
Net pension obligation	16,034,871	4,695,043	3,144,780	23,874,694	3,060,974
Compensated absences	408,877	157,401	106,414	672,692	112,800
Other long-term liabilities	2,195,447	782,186	691,352	3,668,985	-
Total noncurrent liabilities	366,223,194	171,527,010	144,421,447	682,171,651	3,173,774
Total liabilities	\$ 406,494,460	\$ 187,428,398	\$ 176,556,592	\$ 770,479,450	\$ 17,373,925
Deferred inflows of resources					
Related to Pensions	\$ 771,852	\$ 249,133	\$ 264,179	\$ 1,285,164	\$ 142,066
Gain on bonds refunding	-	17,730	1,835	19,565	-
Total deferred inflows of resources	\$ 771,852	\$ 266,863	\$ 266,014	\$ 1,304,729	\$ 142,066
Total liabilities and deferred inflows of resources	\$ 407,266,312	\$ 187,695,261	\$ 176,822,606	\$ 771,784,179	\$ 17,515,991
NET POSITION					
Net investment in capital assets	\$ 208,228,611	\$ 103,005,079	\$ 31,236,492	\$ 342,470,182	\$ 3,464,441
Restricted for:					
Capital projects	-	-	-	-	-
Other purposes:					
Water Utility fund operations	26,914,782	-	-	26,914,782	-
Wastewater Utility fund operations	-	67,130	-	67,130	-
Parking Facilities fund operations	-	-	8,255,136	8,255,136	-
Unrestricted	38,744,567	17,332,120	3,689,623	59,766,310	(2,791,119)
Total net position	\$ 273,887,960	\$ 120,404,329	\$ 43,181,251	\$ 437,473,540	\$ 673,322

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, 2017**

	Business-Type Activities				Governmental Activities - Internal Service Funds
	Water Utility	Wastewater Utility	Parking Facilities	Total	
Operating revenues:					
Charges for services	\$ 84,529,095	\$ 29,064,512	\$ 20,576,534	\$ 134,170,141	\$ 87,812,872
Miscellaneous	2,068,617	175,579	-	2,244,196	36,150
Total operating revenues	<u>86,597,712</u>	<u>29,240,091</u>	<u>20,576,534</u>	<u>136,414,337</u>	<u>87,849,022</u>
Operating expenses:					
Personal services	15,257,947	4,842,161	7,080,807	27,180,915	2,830,565
Healthcare costs	-	-	-	-	80,446,472
Cost of goods sold	-	-	-	-	3,311,951
Plant operations	6,728,352	3,416,511	1,131,676	11,276,539	4,177,448
Chemicals	2,948,324	35,238	12,725	2,996,287	-
Depreciation and amortization	13,476,128	6,464,418	6,243,864	26,184,410	258,678
Retirement and OPEB expense	2,246,616	651,792	468,331	3,366,739	380,496
Administrative expenses	1,717,336	1,441,762	439,861	3,598,959	-
Other	11,776,845	2,601,105	520,543	14,898,493	241,507
Total operating expenses	<u>54,151,548</u>	<u>19,452,987</u>	<u>15,897,807</u>	<u>89,502,342</u>	<u>91,647,117</u>
Operating income (loss), net	<u>32,446,164</u>	<u>9,787,104</u>	<u>4,678,727</u>	<u>46,911,995</u>	<u>(3,798,095)</u>
Nonoperating revenues (expenses):					
Interest income	372,353	6,568	52,768	431,689	-
Intergovernmental revenue	-	149,645	-	149,645	-
Interest expense and fiscal charges, net of capitalized interest	(10,317,548)	(2,614,821)	(5,179,732)	(18,112,101)	-
Gain (loss) on sale or disposal of capital assets	(850,426)	6,105	-	(844,321)	-
Gain (loss) on investments	-	(10,095)	-	(10,095)	-
Miscellaneous revenue (expense)	(16,127)	-	-	(16,127)	-
Total nonoperating revenues (expenses)	<u>(10,811,748)</u>	<u>(2,462,598)</u>	<u>(5,126,964)</u>	<u>(18,401,310)</u>	<u>-</u>
Net income (loss) before contributions and transfers	21,634,416	7,324,506	(448,237)	28,510,685	(3,798,095)
Capital contribution	188,476	-	-	188,476	-
Transfers out	(8,500,000)	(1,500,000)	-	(10,000,000)	-
Changes in net position	13,322,892	5,824,506	(448,237)	18,699,161	(3,798,095)
Total net position - beginning	260,565,068	114,579,823	43,629,488	418,774,379	4,471,417
Total net position - ending	<u>\$ 273,887,960</u>	<u>\$ 120,404,329</u>	<u>\$ 43,181,251</u>	<u>\$ 437,473,540</u>	<u>\$ 673,322</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, 2017

	Business-Type Activities				Governmental Activities - Internal Service Funds
	Water Utility	Wastewater Utility	Parking Facilities	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers	\$ 86,608,090	\$ 29,725,008	\$ 20,725,143	\$ 137,058,241	\$ 93,331,907
Payments to suppliers	(8,811,174)	(3,185,171)	(1,209,921)	(13,206,266)	(3,189,670)
Payments to employees	(17,503,169)	(5,470,921)	(7,505,492)	(30,479,582)	(90,497,453)
Other payments	(14,171,362)	(3,997,367)	(1,102,016)	(19,270,745)	(241,813)
Net cash and short-term investments provided by (used in) operating activities	46,122,385	17,071,549	10,907,714	74,101,648	(597,029)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Internal activity	8,302,506	277,501	3,344,507	11,924,514	(50,403)
Intergovernmental revenues	-	149,645	-	149,645	-
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	(197,494)	(1,072,854)	3,344,507	2,074,159	(50,403)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from issuance of debt	-	32,984,838	20,024,723	53,009,561	-
Capital contributions	188,476	-	-	188,476	-
Purchases of capital assets	(42,502,506)	(12,296,941)	(5,306,255)	(60,105,702)	(71,596)
Refunding of debt principal	-	-	(11,280,000)	(11,280,000)	-
Proceeds from issuance of notes	-	-	(6,622,247)	(6,622,247)	-
Proceeds from sale of capital assets	3,028	8,886	-	11,914	-
Principal paid on capital debt	(10,090,000)	(17,560,550)	(4,104,156)	(31,754,706)	-
Interest paid on capital debt	(13,951,097)	976,558	(7,536,691)	(20,511,230)	-
Net cash provided by (used in) capital and related financing activities	(66,352,099)	4,112,791	(14,824,626)	(77,063,934)	(71,596)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sales and maturities of investments	26,348,662	19,779,706	-	46,128,368	-
Purchase of investments	(28,991,367)	(30,525,126)	(931,798)	(60,448,291)	-
Interest and dividends	376,908	7,919	53,016	437,843	-
Net cash provided by (used in) investing activities	(2,265,797)	(10,737,501)	(878,782)	(13,882,080)	-
Net increase (decrease) in cash and short-term investments	(22,693,005)	9,373,985	(1,451,187)	(14,770,207)	(719,028)
Cash and short-term investments - beginning of the year	86,420,088	12,858,600	19,502,364	118,781,052	12,903,542
Cash and short-term investments - end of the year	\$ 63,727,083	\$ 22,232,585	\$ 18,051,177	\$ 104,010,845	\$ 12,184,514
Reconciliation of Operating Income (Loss) to Net Cash Provided by (used in) Operating Activities:					
Operating income (loss)	\$ 32,446,164	\$ 9,787,104	\$ 4,678,727	\$ 46,911,995	\$ (3,798,095)
Adjustments to reconcile operating income (loss) to net cash and short term investments provided by (used in) operating activities:					
Depreciation expense and amortization	13,476,128	6,464,418	6,243,864	26,184,410	258,678
Change in assets, deferred outflows and liabilities, deferred inflows:					
Receivables, net	10,378	484,917	148,609	643,904	5,394,992
Inventories	(135,186)	11,207	18,405	(105,574)	-
Vouchers payable	1,003,743	255,371	(83,925)	1,175,189	(2,562,522)
Accrued payroll	(80,801)	(34,920)	828	(114,893)	(4,635)
Net pension obligation	82,195	57,952	42,819	182,966	26,026
Other liabilities	(680,236)	45,500	(141,613)	(776,349)	88,527
Net cash and short term investments provided by (used in) operating activities	\$ 46,122,385	\$ 17,071,549	\$ 10,907,714	\$ 74,101,648	\$ (597,029)
Noncash investing, capital and financing activities:					
Unrealized gain / (loss) on investments	\$ (16,127)	\$ (10,095)	\$ -	\$ (26,222)	\$ -
Loss on sale or disposal of capital assets	\$ (850,426)	\$ 6,105	\$ -	\$ (844,321)	\$ -
Acquisition of capital assets through change in in contract retainage	\$ 154,221	\$ (412,004)	\$ (448,429)	\$ (706,212)	\$ -
Acquisition of capital assets through vouchers payable	\$ (776,614)	\$ (149,488)	\$ -	\$ (926,102)	\$ -
Capitalized interest, less interest earned on certain long-term construction contracts	\$ 1,969,078	\$ 115,871	\$ -	\$ 2,084,949	\$ -
Deferred inflow of resources	\$ 316,038	\$ (105,868)	\$ 264,179	\$ 474,349	\$ 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, 2017

Exhibit C-1

	Pension Trust Fund Employees' Retirement System	Agency Funds
ASSETS		
Cash and short term investments	\$ 8,974,000	\$ 6,226,902
Investments, fair value:		
United States Treasury securities	86,542,000	-
Fixed income securities	108,595,000	-
Equity securities	74,710,000	-
Future/Options/Swaps	1,111,000	-
Balanced commingled funds:		
Equity	610,607,000	-
Fixed income	161,136,000	-
Real estate	75,442,000	-
Total investments	<u>1,118,143,000</u>	<u>-</u>
Receivables:		
Accounts, net of allowance for uncollectible accounts	32,000	-
Accrued investment income	1,073,000	-
Due from broker for securities sold	126,629,000	-
Other	-	107,306
Total assets	<u>\$ 1,254,851,000</u>	<u>\$ 6,334,208</u>
LIABILITIES		
Vouchers payable	\$ 1,399,000	\$ 5,170
Due to brokers for securities purchased	209,440,000	-
Due to governmental funds	-	-
Other liabilities	-	6,329,038
Total liabilities	<u>\$ 210,839,000</u>	<u>\$ 6,334,208</u>
NET POSITION		
Restricted for:		
Net position held in trust for pension benefits	<u>\$ 1,044,012,000</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, 2017

Exhibit C-2

Changes to net position attributed to:

Investment income:

Net appreciation in fair value of investments	\$ 101,472,000
Interest	5,871,000
Dividends	6,077,000
	<u>113,420,000</u>
Less investment expense	(1,918,000)
Less other	(274,000)
Net investment income	<u>111,228,000</u>

Employer contributions	33,457,000
Employee contributions	9,450,000
Total	<u>154,135,000</u>

Benefit payments and expenses:

Benefits paid to plan members and beneficiaries	83,977,000
Administrative costs	668,000
Total	<u>84,645,000</u>

Net decrease 69,490,000

Net position held in trust for pension benefits:

Net position - beginning	974,522,000
Net Position - end	<u>\$ 1,044,012,000</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, 2017

Exhibit D-1

	Norfolk Public Schools	Norfolk Economic Development Authority	Total
ASSETS			
Cash and cash equivalents	\$ 36,232,390	\$ 939,203	\$ 37,171,593
Accounts receivable, net of allowance for uncollectible accounts	8,199,277	194,907	8,394,184
Notes receivable	-	543,629	543,629
Due from primary government	1,513,728	-	1,513,728
Due from other governments	23,511,826	-	23,511,826
Inventories	1,301,802	-	1,301,802
Property held for sale	-	5,450,263	5,450,263
Restricted cash	-	1,036,956	1,036,956
Investments	-	2,100,918	2,100,918
Deferred rent receivable	-	184,342	184,342
Non-depreciable capital assets	487,500	1,474,641	1,962,141
Depreciable capital assets, net	9,966,952	15,724,126	25,691,078
Total assets	<u>81,213,475</u>	<u>27,648,985</u>	<u>108,862,460</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows Related to Pensions	51,425,719	-	51,425,719
Total assets and deferred outflows	<u>\$ 132,639,194</u>	<u>\$ 27,648,985</u>	<u>\$ 160,288,179</u>
LIABILITIES			
Vouchers payable	\$ 5,711,343	\$ 1,111,393	\$ 6,822,736
Contract retainage	19,200	-	19,200
Accrued payroll	36,930,206	-	36,930,206
Unearned revenues	277,573	300,000	577,573
Due to primary government	-	432,478	432,478
Revolving loan program	-	602,724	602,724
Due to other government agencies	8,838,647	-	8,838,647
Other payable	788,571	7,218,959	8,007,530
Current portion of long-term liabilities	7,291,260	100,000	7,391,260
Long-term notes payable	-	12,585,000	12,585,000
Net pension liability	350,483,940	-	350,483,940
Other long-term liabilities	23,330,377	-	23,330,377
Total liabilities	<u>\$ 433,671,117</u>	<u>\$ 22,350,554</u>	<u>\$ 456,021,671</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	22,378,528	-	22,378,528
Total liabilities and deferred inflows	<u>\$ 456,049,645</u>	<u>\$ 22,350,554</u>	<u>\$ 478,400,199</u>
NET POSITION			
Net investment in capital assets	\$ 10,454,452	\$ 4,513,767	\$ 14,968,219
Restricted for:			
Capital projects	1,227,183	-	1,227,183
Child nutrition	7,869,532	-	7,869,532
Other programs	997,141	690,944	1,688,085
Unrestricted	(343,958,759)	93,720	(343,865,039)
Total net position	<u>\$ (323,410,451)</u>	<u>\$ 5,298,431</u>	<u>\$ (318,112,020)</u>

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

CITY OF NORFOLK, VIRGINIA
Statement of Activities - Component Units
For the Year Ending June 30, 2017

Exhibit D-2

	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grant Contributions	Capital Grant Contributions	Totals
Norfolk Public Schools:					
Instructional	\$ 271,175,970	\$ 2,449,397	\$ 195,686,647	\$ -	\$ (73,039,926)
Administration, attendance and health	17,056,434	-	-	-	(17,056,434)
Pupil transportation	14,099,243	-	1,964,453	-	(12,134,790)
Operation and maintenance	35,327,576	-	-	-	(35,327,576)
Information technology	10,608,739	-	-	-	(10,608,739)
School facilities	8,669,653	-	-	2,417,428	(6,252,225)
Food services	18,717,715	1,394,680	17,371,967	-	48,932
Community services	78,038	-	-	-	(78,038)
Total Norfolk Public Schools	375,733,368	3,844,077	215,023,067	2,417,428	(154,448,796)
Norfolk Economic Development Authority:					
Economic development	14,107,196	406,518	600,000	-	(13,100,678)
Interest expense	21,801	-	-	-	(21,801)
Total Norfolk Economic Development Authority	14,128,997	406,518	600,000	-	(13,122,479)
Total component units	\$ 389,862,365	\$ 4,250,595	\$ 215,623,067	\$ 2,417,428	\$ (167,571,275)
General revenues:					
Use of money and property					1,460,783
Payment from Primary Government				11,353	116,088,355
Miscellaneous				1,116,433	1,642,333
Intergovernmental revenue - Commonwealth of Virginia				234,029	32,469,855
Total general revenues				-	151,661,326
Changes in net position				1,361,815	(15,909,949)
Net position - beginning				(1,760,664)	(302,202,071)
Net position - ending				17,059,095	\$ (318,112,020)

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

CITY OF NORFOLK, VIRGINIA

Exhibit D-3

Statement of Cash Flows - Component Units For the Year Ending June 30, 2017

	Economic Development Authority
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 367,096
Receipts for Incentives Grants, net of incentive grant to city	1,821,717
Receipt of grants and other	414,266
Payments to other authorities	(105,743)
Payments to developers	-
Payments of incentive grants	(5,859,959)
Payments to suppliers for goods and services	(678,995)
Net cash and short-term investments provided by (used in) operating activities	<u>(4,041,618)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from long-term debt	10,585,000
Payment of long-term debt	(400,000)
Interest paid	(21,801)
Purchase of capital assets	<u>(14,247,166)</u>
Net cash provided by (used in) capital and related financing activities	<u>(4,083,967)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	9,263
Other receipts	(314)
Receipt of payments on loan receivable	49,545
Net cash provided by (used in) investing activities	<u>58,494</u>
Net increase in cash and short-term investments	(8,067,091)
Cash and short-term investments - beginning of the year	<u>10,043,250</u>
Cash and short-term investments - end of the year	<u><u>\$ 1,976,159</u></u>
Reconciliation of Operating Income to Net Cash Provided by (used in) Operating Activities:	
Operating income	\$ 282,298
Adjustments to reconcile operating income (loss) to net cash and short-term investments provided by operating activities:	
Depreciation expense and amortization	127,787
Change in assets, deferred outflows and liabilities, deferred inflows:	
Due to developer	(590,564)
Deferred revenue	300,000
Loss on sale of land	31,445
Deferred rent receivable	(184,342)
Accounts receivable	(89,108)
Due from primary government	519,550
Accounts payable and accrued expenses	(4,438,684)
Net cash and short-term investments provided by (used in) operating activities	<u><u>\$ (4,041,618)</u></u>
Noncash investing, capital and financing activities:	
Infrastructure improvements to land from developer for sale of land	<u>\$ 7,115,106</u>
Acquisition of capital assets through accounts payable	<u>\$ 1,035,000</u>
Contribution of infrastructure to primary government	<u><u>\$ (11,752,510)</u></u>

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

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, 2017

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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, 2017

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 on May 3, 2016 with the remaining five seats up for election in 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. 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
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

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.

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 23501-1357
www.nps.k12.va.us

The Norfolk Economic Development Authority
500 East Main Street, Suite 1500
Norfolk, Virginia 23510-2206
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.

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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.

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

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

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

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

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inflows. Items such as license fees, permit fees and fines are recorded as revenue when received. Intergovernmental revenue, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, is recognized at the time the specific expenditures expected to be funded by this revenue are made. Revenue from general purpose grants is recognized during the entitlement period.

Major sources of governmental 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.

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

D. Budgets and Budgetary Accounting

An operating budget is adopted each fiscal year for the General Fund, Water Utility enterprise fund, Wastewater Utility enterprise fund, Parking Facilities enterprise fund, Storm Water special revenue fund, Public Amenities special revenue fund, Cemeteries special revenue fund, Emergency Operations Center/E-911 special revenue fund, Golf special revenue fund, Towing and Recovery Operations special revenue fund, Tax Increment Financing special revenue fund, Waste Management Fund 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

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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 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.

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, 2017 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.

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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 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

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estimated useful life greater than one year. Capital outlays of governmental funds are recorded as expenditures at the time of purchase and are not capitalized in the governmental funds. However, they are capitalized in the Government-wide Statement of Net Position if they meet the criteria for capitalization in the City's financial statements. Where historical cost records are not available, assets are recorded at estimated historical cost. Gifts or donated 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

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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

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unassigned fund balance classification is for all amounts not included in other classifications.

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. Additionally, a deficit exists in unrestricted net position in the Healthcare Internal Service as a result of adverse claims experience in fiscal year 2017 which will be addressed through premium and plan adjustments.

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.

CITY OF NORFOLK, VIRGINIA
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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 “measureable” and “available” criteria for recognition in the current period. Certain intergovernmental receivables such as uncollected property tax not meeting the availability criteria have been deferred and will be realized in a subsequent period in governmental funds. Deferred outflows represent a consumption of net position in a future period.

The City reports the 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.

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 public depository that receives or holds public deposits (“Qualified Public Depositories”) shall elect to secure deposits by either the Pooled Method or the

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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, 2017.

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Primary Government

Investment Type	Total Investments	Investment Maturities				
		Less than 1 year	1-3 years	3-6 years	6-10 years	10 years +
Corporate Bonds	\$ 31,887,000	\$ 3,007,000	\$ 1,973,000	\$ 12,521,000	\$ 12,580,000	\$ 1,806,000
Futures/Options/Swaps	1,111,000	(60,000)	(241,000)	220,000	1,114,000	78,000
Asset Backed Securities	4,112,000	-	-	607,000	1,064,000	2,441,000
U.S. Government Securities	86,542,000	-	9,557,000	23,314,000	28,142,000	25,529,000
Mortgage Backed Securities	64,434,000	-	69,000	2,010,000	1,482,000	60,873,000
Equity Funds	610,607,000	-	-	-	-	610,607,000
Common Stock	6,500,000	-	-	-	-	6,500,000
Master Limited Partnerships	66,129,000	-	-	-	-	66,129,000
Municipal Bonds	3,179,000	-	-	-	-	3,179,000
Foreign Government Securities	4,983,000	-	1,168,000	1,677,000	1,851,000	287,000
Fixed Income Funds	161,136,000	-	-	-	-	161,136,000
Domestic Equity Funds	2,081,000	-	-	-	-	2,081,000
Real Estate Funds	75,442,000	-	-	-	-	75,442,000
External investment pools	70,120,525	70,120,525	-	-	-	-
Total	\$ 1,188,263,525	\$ 73,067,525	\$ 12,526,000	\$ 40,349,000	\$ 46,233,000	\$ 1,016,088,000

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	\$ 224,928,450
Restricted cash and investments	49,931,399
Total	<u>\$ 274,859,849</u>
Per Exhibit C-1 (Fiduciary):	
Cash and short term investments	8,974,000
Investments	1,118,143,000
Total	<u>\$ 1,127,117,000</u>
Total Primary Government and Fiduciary Funds	<u>\$ 1,401,976,849</u>
Less cash	213,713,324
Deposits and investments reported above	<u>\$ 1,188,263,525</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 \$5,862,778 were held at June 30, 2017. For accounting purposes, all derivative instruments are considered to be investments 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,

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2017, 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											
	Corporate Debt	Futures/Options /Swaps	Asset Backed Securities	Foreign Government	Equity Funds	U.S. Government Securities	Mortgage Backed Securities	Common Stock	Master Limited Partnerships	Municipal Bonds	Fixed Income/ Equity Real Estate Funds	External Investment Pools
AAA	\$ -	\$ -	\$ 1,627,000	-	-	\$ 86,542,000	\$ 2,337,000	-	-	-	-	-
AAA-m	-	-	-	-	-	-	-	-	-	-	-	49,832,274
AA+	299,000	-	2,422,000	-	-	-	61,524,000	-	-	-	-	3,743,156
AA	306,000	-	-	-	-	-	-	-	-	595,000	-	-
AA-	-	-	-	996,000	-	-	-	-	-	1,394,000	-	-
AA-m	-	-	-	-	-	-	-	-	-	-	-	-
A+	1,500,000	-	-	3,700,000	-	-	-	-	-	-	-	-
A	4,825,000	-	-	-	-	-	12,000	-	-	387,000	-	16,545,095
A-	4,132,000	-	-	-	-	-	-	-	-	-	-	-
BBB+	-	-	-	-	-	-	-	-	-	-	-	-
BBB	5,954,000	-	-	-	-	-	14,000	-	-	-	-	-
BBB-	6,713,000	-	-	-	-	-	-	-	-	-	-	-
BB+	686,000	-	-	-	-	-	-	-	-	-	-	-
BB	-	-	-	-	-	-	-	-	-	-	-	-
BB-	212,000	-	-	-	-	-	-	-	-	-	-	-
B+ and Below	6,269,000	-	49,000	287,000	-	-	540,000	-	-	309,000	-	-
Not Rated	991,000	1,111,000	14,000	-	610,607,000	-	7,000	6,500,000	66,129,000	494,000	238,659,000	-
Total	\$ 31,887,000	\$ 1,111,000	\$ 4,112,000	\$ 4,983,000	\$ 610,607,000	\$ 86,542,000	\$ 64,434,000	\$ 6,500,000	\$ 66,129,000	\$ 3,179,000	\$ 238,659,000	\$ 70,120,525

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, 2017:

SSGA MSCI ACWI IMI Index Fund	\$ 610,607,000
SSGA Bond Market Index	\$ 133,134,000

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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:

<u>Currency</u>	<u>Fixed-Income</u>
Australian Dollar	\$ 147,000
Canadian Dollar	154,000
Euro Currency	85,000
Japanese Yen	1,000
Pound Sterling	489,000
	<u>\$ 876,000</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

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securities are not necessarily an indication of the risk associated with investing in those securities.

The table below provides the inputs used to determine the fair value at June 30, 2017.

	June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)
Investments measured at fair value			
Cash Equivalents			
Certificates of Deposit	\$ 3,005,000	\$ -	\$ 3,005,000
Short Term Fund	4,441,000	-	4,441,000
	<u>\$ 7,446,000</u>	<u>\$ -</u>	<u>\$ 7,446,000</u>
Fixed Income Securities			
U.S. Treasury Securities	\$ 86,542,000	\$ -	\$ 86,542,000
Corporate Bonds	31,887,000	-	31,887,000
Futures/Options/Swaps	1,111,000	-	1,111,000
Municipals	3,179,000	-	3,179,000
Asset Backed Securities	4,112,000	-	4,112,000
Mortgage Backed Securities	64,434,000	-	64,434,000
Foreign Government Securities	4,983,000	-	4,983,000
Total Fixed Income Securities	<u>\$ 196,248,000</u>	<u>\$ -</u>	<u>\$ 196,248,000</u>
Equity Securities			
Common Stock	\$ 6,500,000	\$ 6,500,000	\$ -
Master Limited Partnerships	66,129,000	66,129,000	-
Domestic Equity Funds	2,081,000	2,081,000	-
Total Equity Securities	<u>\$ 74,710,000</u>	<u>\$ 74,710,000</u>	<u>\$ -</u>
Commingled Securities			
Fixed Income Fund	\$ 28,002,000	\$ -	\$ 28,002,000
Total Commingled Securities	<u>\$ 28,002,000</u>	<u>\$ -</u>	<u>\$ 28,002,000</u>
Total investments by fair value level	<u>\$ 298,960,000</u>	<u>\$ 74,710,000</u>	<u>\$ 224,250,000</u>
Investments Measured at the net asset value (NAV)			
Commingled Funds			
Equity Funds	\$ 610,607,000		
Fixed Income Funds	133,134,000		
Real Estate Funds	75,442,000		
Total investments measured at NAV	<u>819,183,000</u>		
Investments Measured at amortized costs			
External Investment Pools	<u>70,120,525</u>		
Total investments	<u>\$ 1,188,263,525</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 \$37,940,431 in LGIP funds and \$32,180,094 in PFM funds (\$16,545,095 invested in the SNAP program) at June 30, 2017.

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.

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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 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, 2017, the School Board had cash of \$38,118,051, including \$1,885,661 held in agency funds.

Economic Development Authority (EDA)

Cash includes cash on hand and cash deposited with financial institutions. At June 30, 2017, there was \$1,976,159 in cash and cash equivalents (\$1,036,956 which is considered restricted), including \$263,356 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, 2017, the Authority held an eighteen-month certificate of deposit yielding 0.12% in the amount of \$2,100,918, 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, 2017, 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, 2017:

Storm Water special revenue fund	\$ 801,630
Water Utility fund	4,720,212
Wastewater Utility fund	1,096,511
Parking Facilities fund	250,743
	<u>\$ 6,869,096</u>

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The associated revenue is included in charges for services. All amounts were billed in July 2017.

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, 2017, are as follows:

Primary Government:

General Fund:

Taxes	\$ 11,522,000
Accounts	17,512,181
Community Services Board	561,817
Total General Fund	<u>29,595,998</u>

Storm Water special revenue fund	539,200
Waste Management special revenue fund	1,065,200
Parking Facilities fund	11,537,409
Water Utilities fund	1,400,000
Wastewater Utilities fund	900,000
Total Primary Government	<u><u>\$ 45,037,807</u></u>

V. Due From Other Governments

Amounts due from other governments, at June 30, 2017, are as follows:

	General Fund	Capital Projects Fund	Special Revenue Funds	Total Governmental Funds	Component Unit School Board
Commonwealth of Virginia:					
Shared expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Categorical aid	-	-	-	-	-
Non-categorical aid	23,265,114	-	-	23,265,114	6,115,491
Non-major governmental funds grants	-	-	2,562,246	2,562,246	-
Total - Commonwealth of Virginia	<u>23,265,114</u>	<u>-</u>	<u>2,562,246</u>	<u>25,827,360</u>	<u>6,115,491</u>
Federal Government:					
Major governmental funds	693,798	5,941,421	-	6,635,219	17,396,335
Non-major governmental funds grants	-	-	6,350,453	6,350,453	-
Total - Federal Government	<u>693,798</u>	<u>5,941,421</u>	<u>6,350,453</u>	<u>12,985,672</u>	<u>17,396,335</u>
Total - Due from other governments	<u><u>\$ 23,958,912</u></u>	<u><u>\$ 5,941,421</u></u>	<u><u>\$ 8,912,699</u></u>	<u><u>\$ 38,813,032</u></u>	<u><u>\$ 23,511,826</u></u>

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VI. Capital Assets

A summary of changes in capital assets, at June 30, 2017, follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Non-depreciable capital assets:				
Land	\$ 98,420,420	\$ 328,000	\$ (167,500)	\$ 98,580,920
Intangible assets	85,014	-	(20,000)	65,014
Construction in progress	235,093,416	77,964,235	(156,112,677)	156,944,974
Total non-depreciable assets	333,598,850	78,292,235	(156,300,177)	255,590,908
Depreciable assets:				
Buildings	898,978,558	126,173,537	(174,252)	1,024,977,843
Improvements other than buildings	92,977,095	13,909,853	(167,138)	106,719,810
Equipment and vehicles	146,146,722	10,793,437	(5,992,423)	150,947,736
Intangible assets	4,962,043	-	(11,436)	4,950,607
Infrastructure	1,207,878,246	18,214,073	(261,246)	1,225,831,073
Total depreciable assets	2,350,942,664	169,090,900	(6,606,495)	2,513,427,069
Less accumulated depreciation/ amortization:				
Buildings	(380,386,916)	(22,213,413)	-	(402,600,329)
Improvements other than buildings	(31,029,722)	(4,132,756)	-	(35,162,478)
Equipment and vehicles	(101,917,349)	(9,052,454)	4,446,863	(106,522,940)
Intangible assets	(4,166,036)	(145,831)	11,436	(4,300,431)
Infrastructure	(1,010,675,390)	(10,116,325)	261,246	(1,020,530,469)
Total accumulated depreciation/ amortization	(1,528,175,413)	(45,660,779)	4,719,545	(1,569,116,647)
Depreciable assets, net	822,767,251	123,430,121	(1,886,950)	944,310,422
Total governmental activities capital assets, net	\$ 1,156,366,101	\$ 201,722,356	\$ (158,187,127)	\$ 1,199,901,330
Business-type activities:				
Non-depreciable capital assets:				
Land	\$ 49,387,123	\$ 425,818	\$ -	\$ 49,812,941
Intangible assets	2,474,561	-	-	2,474,561
Construction in progress	90,556,126	57,919,089	(96,294,753)	52,180,462
Total non-depreciable assets	142,417,810	58,344,907	(96,294,753)	104,467,964
Depreciable assets:				
Land improvements	20,787,445	-	-	20,787,445
Buildings	417,489,857	62,785,437	(1,879,418)	478,395,875
Equipment and vehicles	779,916,606	33,298,284	(440,623)	812,774,266
Intangible assets	6,574,508	339,513	(23,294)	6,890,727
Totals depreciable assets	1,224,768,416	96,423,234	(2,343,335)	1,318,848,313
Less accumulated depreciation/ amortization:				
Land improvements	(5,329,185)	(405,250)	-	(5,734,434)
Buildings	(136,071,109)	(9,342,636)	1,052,258	(144,361,487)
Equipment and vehicles	(243,685,198)	(16,049,542)	411,550	(259,323,189)
Intangible assets	(5,305,886)	(386,984)	23,294	(5,669,576)
Total accumulated depreciation/ amortization	(390,391,378)	(26,184,412)	1,487,102	(415,088,686)
Depreciable assets, net	834,377,038	70,238,822	(856,233)	903,759,627
Business-type activities capital assets, net	\$ 976,794,848	\$ 128,583,729	\$ (97,150,986)	\$ 1,008,227,591
Component units activities:				
Non-depreciable capital assets:				
Land	\$ 1,962,141	\$ -	\$ -	\$ 1,962,141
Construction in progress	-	-	-	-
Total non-depreciable assets	1,962,141	-	-	1,962,141
Depreciable assets:				
Buildings and mobile classrooms	7,785,898	-	-	7,785,898
Building improvements	519,412	14,247,166	-	14,766,578
Equipment and vehicles	36,350,610	2,425,574	(1,971,900)	36,804,284
Intangible assets	1,323,387	-	-	1,323,387
Total depreciable assets	45,979,307	16,672,740	(1,971,900)	60,680,147
Less accumulated depreciation:				
Buildings and mobile classrooms	(4,807,236)	(534,584)	-	(5,341,820)
Building improvements	-	(127,787)	-	(127,787)
Equipment and vehicles	(28,904,549)	(1,508,442)	2,068,881	(28,344,110)
Intangible assets	(910,676)	(389,937)	125,260	(1,175,353)
Total accumulated depreciation	(34,622,461)	(2,560,750)	2,194,141	(34,989,070)
Depreciable assets, net	11,356,846	14,111,990	222,241	25,691,077
Component units activities capital assets, net	\$ 13,318,987	\$ 14,111,990	\$ 222,241	\$ 27,653,218

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

General government	\$ 14,108,052
Judicial administration	2,824,178
Public safety	3,828,638
Public works, which includes the depreciation of infrastructure assets	12,033,291
Health and sanitation	207,554
Culture and recreation	12,386,417
Community development	13,971
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.	258,678
Total depreciation expense	<u>\$ 45,660,779</u>
Business-type activities:	
Water Utility fund	\$ 13,476,128
Wastewater Utility fund	6,464,420
Parking Facilities fund	6,243,864
Total depreciation expense	<u>\$ 26,184,412</u>
Component unit activities	
School Board	\$ 2,432,963
Norfolk Economic Development Authority	127,787
Total depreciation expense	<u>\$ 2,560,750</u>

The following is a summary by fund of interest expense/revenue capitalized during the fiscal year ended June 30, 2017:

	<u>Expense</u>	<u>Revenue</u>	<u>Capitalized</u>
Water Utility fund	\$ 2,037,629	\$ (68,551)	\$ 1,969,078
Wastewater Utility fund	194,750	(78,879)	115,871
	<u>\$ 2,232,379</u>	<u>\$ (147,430)</u>	<u>\$ 2,084,949</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

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construction of certain infrastructure, which would be funded by the City (up to \$12,000,000) and the City's Wastewater Fund (approximately \$2,500,000), who would have title to the 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 basin, 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 for \$9,300,000 (\$310,000 per acre). 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. At June 30, 2017, the feasibility period had not expired and the sale had not closed. As this transaction is related to the Simon transaction noted in the previous paragraph and will be used to offset the infrastructure costs incurred by Simon, the Authority recorded deferred proceeds of \$7,092,955.

In addition, land and land improvements held for resale also includes three acres which are recorded at approximately \$115,000 per acre, which represents the cost basis of two acres and an amount below the original cost basis of the third totaling \$345,000.

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, 2017, \$26,235,000 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

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Bonds are subject to redemption at the direction of the City, in whole at any time or in part on any Interest Payment Date, at a redemption price equal to the principal amount thereof, plus accrued interest, if any, to the redemption date. The final maturity on the Series 2007 Bonds is August 1, 2037.

The City maintains a liquidity facility with respect to the Series 2007 Bonds to assist with the payment of Bonds tendered for purchase by the owners and not remarketed. In 2014, the existing liquidity facility was due to expire, and the City entered into a Standby Bond Purchase Agreement dated as of March 1, 2014 (the "Liquidity Facility") among the City, the Trustee and Royal Bank of Canada (the "Bank"). 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, 2017, the average weekly interest rate on the Series 2007 Bonds was 67 basis points (0.67%).

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, 2017, 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, 2017, \$12,380,000 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, 2017, the average weekly interest rate on the 2013D Variable Rate Loan was 122.81 basis points (1.2281%).

C. Line of Credit

On December 17, 2014, the City established a revolving line of credit agreement with Bank of America Merrill Lynch ("BAML") 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

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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 BAML. The commitment fee on the unutilized portion of the line will be paid annually in arrears and will be waived in full for any year that has average utilization of at least 40 percent for that 12-month period.

Activity for the year ended June 30, 2017 is as follows:

	Balance at June 30, 2016	Additions	Deductions	Balance at June 30, 2017
Capital Projects fund	\$ 175,289,003	\$ 225,100,264	\$ (210,586,721)	\$ 189,802,546
Parking Facilities fund	16,710,997	88,750	(6,710,997.00)	10,088,750
	<u>\$ 192,000,000</u>	<u>\$ 225,189,014</u>	<u>\$ (217,297,718)</u>	<u>\$ 199,891,296</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, 2017, follows:

	Governmental Activities - General Obligation Bonds	Enterprise Funds			Total Enterprise Funds
		Water Utility Bonds	Wastewater Utility Bonds	Parking Facilities Bonds	
General obligation bonds outstanding at July 1, 2016	\$ 570,456,275	\$ -	\$ 90,256,596	\$ 135,555,066	\$ 225,811,662
Bonds retired	(46,333,017)	-	(7,167,107)	(4,104,156)	(11,271,263)
Bonds refunded/defeased	(51,720,000)	-	(6,905,000)	(11,280,000)	(18,185,000)
Bonds transferred	-	-	-	-	-
Bonds reamortized	-	-	-	-	-
Bonds issued	139,471,766	-	27,652,291	20,024,724	47,677,014
Bonds outstanding at June 30, 2017	611,875,024	-	103,836,780	140,195,633	244,032,413
Unamortized (discount) premium	53,065,997	-	10,327,880	4,561,367	14,889,246
General obligation bonds outstanding at June 30, 2017, adjusted for unamortized (discount) premium	<u>\$ 664,941,021</u>	<u>\$ -</u>	<u>\$ 114,164,660</u>	<u>\$ 144,757,000</u>	<u>\$ 258,921,660</u>
Revenue bonds outstanding at July 1, 2016		\$ 329,720,000	\$ 61,170,944	\$ -	\$ 390,890,944
Bonds retired		(10,090,000)	(3,488,443)	-	(13,578,443)
Bonds refunded		-	-	-	-
Bonds issued		-	5,332,547	-	5,332,547
Revenue Bonds outstanding at June 30, 2017		319,630,000	63,015,048	-	382,645,048
Unamortized (discount) premium		41,813,999	-	-	41,813,999
Revenue bonds outstanding at June 30, 2017, adjusted for unamortized (discount) premium		<u>\$ 361,443,999</u>	<u>\$ 63,015,048</u>	<u>\$ -</u>	<u>\$ 424,459,047</u>
Total bonds outstanding at June 30, 2017, adjusted for unamortized (discount)/premium	<u>\$ 664,941,021</u>	<u>\$ 361,443,999</u>	<u>\$ 177,179,708</u>	<u>\$ 144,757,000</u>	<u>\$ 683,380,707</u>

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General obligation and revenue bonds outstanding at June 30, 2017, are composed of the following individual issues:

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	Governmental	Business-type Activities		Balance Outstanding
				Activities Public Improvement	Wastewater Utility	Parking 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 VRA	4/8/2003	9,423,794	2.00%	-	4,253,606	-	4,253,606
Series 2004 Property Acquisition	7/29/2004	1,775,000	7.00%	302,338	-	-	302,338
Series 2004 VRA	9/17/2004	11,100,000	3.10%	-	5,950,648	-	5,950,648
Series 2006 VRA	3/14/2006	11,187,809	2.25%	-	6,714,564	-	6,714,564
Series 2006B VRA	9/28/2006	14,250,000	0.00%	-	7,837,500	-	7,837,500
				Variable - June 30, 2017, rate of			
Series 2007 VRDB	3/29/2007	32,365,000	0.90%	26,235,000	-	-	26,235,000
Series 2008A&B Refunding	2/13/2008	17,160,000	3.50 - 4.625%	1,970,000	-	-	1,970,000
Series 2008C Capital Improvement	6/30/2008	153,605,000	5.00%	-	-	-	-
Series 2009A&B Refunding	5/21/2009	77,175,000	4.00 - 5.00%	8,984,183	195,817	-	9,180,000
Series 2010A Capital Improvement	1/21/2010	49,875,000	3.25 - 4.25%	-	-	2,310,000	2,310,000
Series 2010B Capital Improvement	1/21/2010	117,650,000	4.40 - 5.962%	101,469,524	8,220,476	-	109,690,000
Series 2010E Capital Improvement	2/25/2010	5,000,000	3.00 - 4.00%	-	-	3,500,000	3,500,000
Series 2010F Capital Improvement	2/25/2010	5,000,000	4.00 - 5.60%	3,500,000	-	-	3,500,000
Series 2010G Refunding	10/19/2010	90,165,000	4.00 - 5.00%	60,751,571	5,704,993	183,436	66,640,000
Series 2012A Refunding	5/30/2012	69,030,000	2.00 - 5.00%	55,331,928	5,399,673	1,423,399	62,155,000
Series 2012B Refunding	5/30/2012	7,805,000	2.00 - 4.00%	3,895,000	-	-	3,895,000
Series 2012C Capital Improvement	6/28/2012	114,270,000	4.00 - 5.00%	14,320,000	4,325,000	-	18,645,000
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%	64,145,000	4,930,000	25,460,000	94,535,000
Series 2013B Capital Improvements and Refunding	11/7/2013	81,715,000	1.521 - 4.955%	-	-	74,775,000	74,775,000
Series 2013C QECB	11/7/2013	2,470,000	4.855%	2,470,000	-	-	2,470,000
				Variable - June 30, 2017, rate of			
Series 2013D Refunding	11/7/2013	13,600,000	2.1772%	-	-	12,380,000	12,380,000
Series 2014 Refunding	4/2/2014	65,155,000	2.00 - 5.00%	52,231,220	12,923,780	-	65,155,000
Series 2014A Refunding	6/2/2014	11,725,000	1.400%	-	-	-	-
Series 2014B Refunding	10/1/2014	9,900,000	3.290%	8,193,776	582,150	139,074	8,915,000
Series 2014C Refunding	9/30/2014	58,510,000	2.00 - 5.00%	49,357,947	7,837,053	-	57,195,000
Series 2015 Refunding	3/2/2015	16,320,000	3.320%	10,390,770	1,309,230	-	11,700,000
Series 2016A	10/19/2016	106,680,000	2.00 - 5.00%	76,105,000	20,495,000	6,690,000	103,290,000
Series 2016B Refunding	10/19/2016	69,870,000	4.00 - 5.00%	49,377,986	7,157,290	13,334,724	69,870,000
Series 2016C	10/19/2016	10,500,000	3.00 - 3.05%	10,500,000	-	-	10,500,000
Series 2017 GO Storm Water	5/31/2017	2,405,791	0.00%	93,781	-	-	93,781
Total General Obligation Bonds				<u>\$ 611,875,024</u>	<u>\$ 103,836,780</u>	<u>\$ 140,195,633</u>	<u>\$ 855,907,437</u>

Bond Issue/Purpose	Dated	Interest Rate	Business-type Activities		Balance Outstanding
			Water Utility	Wastewater Utility	
Series 2007 Wastewater Revenue	11/9/2007	0.00%	-	10,625,000	10,625,000
Series 2008 Water Revenue	4/23/2008	5.00%	2,640,000	-	2,640,000
Series 2009 Wastewater Revenue	11/17/2009	0.00%	-	5,250,000	5,250,000
Series 2010 Water Revenue	9/30/2010	2.50 - 4.50%	41,635,000	-	41,635,000
Series 2010 Wastewater Revenue	10/19/2010	0.00%	-	7,500,000	7,500,000
Series 2011 Wastewater Revenue	10/21/2011	0.00%	-	7,672,500	7,672,500
Series 2012 Water Revenue Refunding	4/4/2012	5.00%	148,605,000	-	148,605,000
Series 2012 Wastewater Revenue	12/18/2012	0.00%	-	10,149,421	10,149,421
Series 2013 Water Revenue	2/20/2013	5.00%	43,070,000	-	43,070,000
Series 2013 Wastewater Revenue	12/12/2013	0.00%	-	9,250,000	9,250,000
Series 2015 Wastewater Revenue	3/2/2015	0.00%	-	8,520,573	8,520,573
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%	-	3,733,261	3,733,261
Series 2017 Wastewater Revenue	5/31/2017	0.00%	-	314,293	314,293
Total Revenue Bonds			<u>\$ 319,630,000</u>	<u>\$ 63,015,048</u>	<u>\$ 382,645,048</u>

The Series 2007 General Obligation Variable Rate Demand Bonds, utilized to finance the construction of the cruise terminal, are remarketed weekly and reset at an interest rate of 0.90% as June 30, 2017 (see Note VIII).

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The Series 2013D General Obligation Variable Rate Bond reset at an interest rate of 2.1772% as of June 30, 2017 (See Note VIII).

B. General Obligation Bonds

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

<u>Year Ending</u> <u>June 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	45,616,954	26,501,801	11,765,177	9,170,616
2019	54,367,568	24,108,348	11,720,245	9,010,376
2020	50,678,143	21,814,064	12,258,349	8,675,106
2021	47,700,514	19,726,225	12,453,157	8,117,723
2022	44,188,991	17,601,399	12,254,862	7,770,469
2023-2027	188,343,739	60,649,005	63,811,544	31,891,077
2028-2032	110,533,673	25,296,309	46,609,042	21,317,541
2033-2037	54,990,722	6,357,625	43,707,723	11,240,375
2038-2042	10,544,720	1,918,289	19,362,314	3,274,081
2043-2047	4,910,000	494,891	10,090,000	1,295,000
Total	\$ 611,875,024	\$ 204,467,956	\$ 244,032,413	\$ 111,762,364

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

<u>Year Ending</u> <u>June 30,</u>	<u>Wastewater Utility Fund</u>		<u>Parking Facilities Fund</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	7,487,077	3,781,323	4,278,099	5,389,293
2019	7,614,978	3,704,926	4,105,266	5,305,449
2020	7,534,029	3,477,570	4,724,320	5,197,536
2021	7,824,874	3,035,730	4,628,283	5,081,993
2022	7,851,392	2,825,791	4,403,470	4,944,678
2023-2027	37,624,850	9,854,593	26,186,696	22,036,484
2028-2032	16,008,422	4,555,432	30,600,619	16,762,109
2033-2037	5,091,158	2,309,942	38,616,566	8,930,433
2038-2042	3,400,000	1,275,000	15,962,314	1,999,081
2043-2047	3,400,000	425,000	6,690,000	870,000
	\$ 103,836,780	\$ 35,245,307	\$ 140,195,633	\$ 76,517,056

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

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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, 2017, draws for project expenses of \$1,314,672, \$3,703,582 and \$314,293 from bond issuances in fiscal year 2015, 2016 and 2017 respectively, resulted in total VRA drawdowns of \$5,332,547 for fiscal year 2017. 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,	<u>Water Revenue</u>		<u>Wastewater Revenue</u>	
	Principal	Interest	Principal	Interest
2018	13,860,000	15,405,600	3,800,251	-
2019	14,200,000	14,714,975	3,901,440	-
2020	13,830,000	14,025,550	3,909,297	-
2021	15,965,000	13,292,450	3,909,297	-
2022	17,170,000	12,485,575	3,909,297	-
2023-2027	86,890,000	48,922,424	19,546,486	-
2028-2032	52,020,000	32,060,413	17,046,485	-
2033-2037	40,905,000	21,251,619	6,875,592	-
2038-2042	39,185,000	11,295,806	116,903	-
2043-2047	25,605,000	2,058,838	-	-
Total	\$ 319,630,000	\$ 185,513,250	\$ 63,015,048	\$ -

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

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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, 2017, 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
2016	2008C	2,000,000	4/1/2017
2017	2009A	4,440,000	11/1/2029
2017	2012C	33,925,000	10/1/2042
2017	2013A	31,540,000	8/1/2043
		<u>\$ 128,830,000</u>	

Water Revenue Bonds:

Defeased In	Original Issue	Amount	Redemption
2015	2008	47,140,000	11/1/2018
		<u>\$ 47,140,000</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 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, 2017, \$10,585,000 in funds have been drawn of which \$10,185,000 was outstanding at the end of the year.

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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 \$4,493,926 for the fiscal year ended June 30, 2017.

Future year lease obligations are listed below:

Year Ending June 30,	Operating Lease Obligations
2018	3,674,042
2019	3,557,675
2020	2,694,291
2021	2,371,569
2022	1,950,016
Thereafter	2,270,086
Total minimum lease payments	\$ 16,517,679

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 \$2,543,671 reported as an obligation for landfill closure and post-closure costs at June 30, 2017, 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, \$1,919,851 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:

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Primary Government	
Governmental Activities:	
General Fund	\$ 16,889,600
Nonmajor governmental funds	1,373,819
Internal service funds	266,541
Total Governmental	<u>\$ 18,529,960</u>
Enterprise funds:	
Water Utility fund	\$ 1,111,469
Wastewater Utility fund	375,403
Parking Facilities fund	251,451
Total Enterprise funds	<u>\$ 1,738,323</u>
Component Unit - School Board	<u>\$ 17,743,279</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, 2017, the City's debt limit is \$1,943,388,902 of which \$877,405,167 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, 2017, are as follows:

<u>Projects</u>	<u>Total</u>
General Obligation Bonds Authorized and Unissued:	
Capital Fund Projects	
General Capital Improvement Projects	\$ 275,691,102
Storm Water Capital Improvement Projects	1,903,071
Capital Fund Projects Total	<u>\$ 277,594,173</u>
Parking Facilities Fund Projects	15,310,929
Wastewater Utility Fund Projects	18,390,748
G.O. Bonds Authorized and Unissued	<u>\$ 311,295,851</u>
Revenue Bonds Authorized and Unissued:	
Water Utility Fund Projects	\$ 64,522,116
Revenue Bonds Authorized and Unissued	<u>\$ 64,522,116</u>
Total Bonds Authorized and Unissued	<u>\$ 375,817,966</u>

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K. Changes in Long-Term Obligations

A summary of fiscal year 2017 changes in long-term obligations, net of unamortized discounts and premiums, are as follows:

	Primary Government			Amounts Due
	Beginning Balance	Additions	Reductions	Within One Year
<u>GOVERNMENTAL ACTIVITIES:</u>				
Bonds and Line of Credit:				
General obligation bonds	\$ 570,456,274	\$ 139,471,766	\$ (98,053,016)	\$ 611,875,024
Net Premiums	41,419,341	22,586,493	(10,939,837)	53,065,997
Total Bonds	611,875,615	162,058,259	(108,992,853)	664,941,021
Other Liabilities:				
Vested compensated absences	17,352,350	11,696,990	(10,785,921)	18,263,419
Other post-employment benefits	36,411,752	4,870,109	(1,291,693)	39,990,168
Retiree's life insurance	200,000	-	(35,000)	165,000
Self-insurance	29,296,575	8,420,622	(5,798,964)	31,918,233
Net Pension Liability	197,735,772	104,827,794	(47,947,354)	254,616,212
Landfill closure and post-closure costs	2,511,028	32,643	-	2,543,671
Total Other Liabilities	283,507,477	129,848,158	(65,858,932)	347,496,703
Governmental Activities				
Long-term liabilities	895,383,092	291,906,417	(174,851,785)	1,012,437,724
Internal Service Funds:				
Net Pension Liability	\$ 2,040,934	\$ 1,532,627	\$ (512,587)	\$ 3,060,974
Vested compensated absences	264,389	140,764	(138,612)	266,541
Total Internal Service Funds	2,305,323	1,673,391	(651,199)	3,327,515
Total Governmental Activities	\$ 897,688,415	\$ 293,579,808	\$ (175,502,984)	\$ 1,015,765,239
<u>BUSINESS-TYPE ACTIVITIES:</u>				
Bonds and Line of Credit:				
Water utilities	\$ 329,720,000	\$ -	\$ (10,090,000)	\$ 319,630,000
Wastewater utilities	151,427,540	32,984,838	(17,560,550)	166,851,828
Parking facilities	135,555,066	20,024,724	(15,384,157)	140,195,633
Net Premiums	56,101,428	601,817	-	56,703,245
Total Bonds Payable	672,804,034	53,611,379	(43,034,707)	683,380,706
Other Liabilities:				
Vested compensated absences	1,735,473	1,151,996	(1,149,146)	1,738,323
Net Pension Liability	18,953,815	9,270,470	(4,349,591)	23,874,694
Other post-employment benefits	3,393,972	322,648	(47,636)	3,668,984
Total Other Liabilities	24,083,260	10,745,114	(5,546,373)	29,282,001
Total Business-Type Activities	\$ 696,887,294	\$ 64,356,493	\$ (48,581,080)	\$ 712,662,707
<u>COMPONENT UNITS:</u>				
Other Liabilities:				
Vested compensated absences	\$ 9,241,821	\$ 10,599,015	\$ (10,593,682)	\$ 9,247,154
Other post-employment benefits	16,172,527	4,151,498	(2,580,746)	17,743,279
Net Pension Liability	317,468,532	55,393,936	(22,378,528)	350,483,940
Workers' compensation claims	3,693,122	173,352	(276,468)	3,590,006
Long-term Notes Payable	2,500,000	10,585,000	(400,000)	12,685,000
Claims liability	40,913	63,694	(63,409)	41,198
Component Units				
long-term obligations	\$ 349,116,915	\$ 80,966,495	\$ (36,292,833)	\$ 393,790,577

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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 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, 2016, the actuarial valuation and net pension liability measurement date, the following employees were covered by the benefit terms:

Retirees and Beneficiaries receiving benefits:	
General	2,628
Public Safety	1,209
Vested Former Members:	
General	935
Public Safety	267
Active Plan Members:	
General	2,807
Public Safety	1,258
	<u>9,104</u>

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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

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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 \$33,457,377 and \$30,761,340 for the years ended June 30, 2017 and 2016, respectively. These contributions combined with employee contributions of \$9,450,000 and \$8,733,481 for the year ended June 30, 2017 and June 30, 2016, 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, 2016 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 disable 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, 2016, are summarized in the following table:

Asset Class	30-year 2016	
	Long-term Expected Real Rate of Return	Target 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. The projected benefit payments ended by fiscal year end 2099 and the pension plan's fiduciary net position was projected to be available to make projected future payments and pay administrative expenses until fiscal year 2075. 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 of 2.85% 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, 2016 was 7.07%.

Net Pension Liability

The net pension liability was measured as of June 30, 2016, with an actuarial valuation date of June 30, 2016. Pension expense and liability are allocated to governmental and enterprise funds based on the actual employer contributions. The employer contributions made in fiscal year 2017 of \$30,486,248 for governmental activities and \$2,971,129 for business-type activities are included as deferred outflows. As of June 30, 2017, the City reported a net pension liability of \$247,466,233 in governmental activities and \$23,874,694 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 2016 was 91.2% and 8.8%, 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	\$ 1,224,622,781	\$ 1,013,204,260	\$ 211,418,521
Service cost	25,919,058	-	25,919,058
Interest	84,710,490	-	84,710,490
Changes in Benefits Terms	568,480	-	568,480
Contributions - employer	-	30,761,340	(30,761,340)
Contributions - employee	-	8,733,481	(8,733,481)
Net investment income	-	3,278,018	(3,278,018)
Benefits payments, including refunds of member contributions	(80,783,975)	(80,783,975)	-
Difference between expected and actual Experience	(2,665,615)	-	(2,665,615)
Change in assumptions	(6,508,735)	-	(6,508,735)
Administrative expense	-	(671,568)	671,568
Balances at June 30, 2017	\$ 1,245,862,484	\$ 974,521,556	\$ 271,340,928

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	\$ 403,126,336	\$ 271,340,928	\$ 158,963,696

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

Total pension expense included for the City is \$31,293,976 for Governmental activities and \$3,091,726 for business-type activities or \$34,385,702 combined for the City.

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At June 30, 2017, 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	\$ 7,182,264	\$ 694,691	\$ 7,876,955
Net difference between projected and actual earnings on plan investments	(44,430,565)	(4,352,747)	(48,783,312)
Change in assumptions	4,748,774	458,215	5,206,989
Net change in proportionate share	(106,667)	106,667	-
	<u>\$ (32,606,194)</u>	<u>\$ (3,093,174)</u>	<u>\$ (35,699,368)</u>

Deferred outflows related to pension contributions made after the measurement date of \$30,486,248 for governmental activities and \$2,971,129 for business-type activities will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. 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
2018	\$ (1,041,710)	\$ (110,052)	\$ (1,151,762)
2019	(1,041,711)	(110,053)	(1,151,764)
2020	(19,973,615)	(1,932,265)	(21,905,880)
2021	(10,549,158)	(940,804)	(11,489,962)
2022	-	-	-
	<u>\$ (32,606,194)</u>	<u>\$ (3,093,174)</u>	<u>\$ (35,699,368)</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

CITY OF NORFOLK, VIRGINIA
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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 includes hybrid retirement plan members for the first time. Because this was a new benefit and the number of participants was small, the impact on the liabilities as of the measurement date of June 30, 2016 is not material.

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 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-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

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only the School Board's proportionate share as of the measurement date which amounted to 99.18% as of June 30, 2015 and 2016. The 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 2.403% as of June 30, 2016 and 2.430% as of June 30, 2015.

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, 2015, not including the employee 5.00% contributions were 9.14% of covered payroll for the City of Norfolk employees, 13.79% 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 years ended June 30, 2017, 2016 and 2015 for professional employees were \$26,582,248, \$25,755,298 and \$26,205,705, 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, 2017, 2016, and 2015 were \$1,408,370, \$1,794,211 and \$1,767,920, respectively.

The City of Norfolk contributions to the VRS for constitutional offices for the years ended June 30, 2017, 2016 and 2015 were \$2,406,428, \$2,804,570, and \$2,830,000 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, 2015, 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, 2016.

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Actuarial cost method	Entry Age
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-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years.
Post-Retirement	RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.
Post-Disablement	RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

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

Pre-Retirement	RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 3 years and females set back 5 years.
Post-Retirement	RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 3 years.
Post-Disablement	RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 1 year and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follow:

- Updated mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

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

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Asset Class (Strategy)	Target Allocation	Arithmetic	Weighted Average
		Long-term Expected Real Rate of Return	Long-term Expected Real Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
Inflation			2.50%
*Expected arithmetic nominal return			8.33%

*Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one-year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.5%.

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, 2018, 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, 2018 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, 2016, and changes in proportionate share between June 30, 2016 and June 30, 2017. Pension expense reported for the fiscal year ended June 30,

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2017 for the City for Norfolk, the School Board Political Subdivisions and the School Board Teachers was \$2,117,725, \$606,573 and \$26,439,238, respectively. At June 30, 2017, 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	School Board	School Board
	Constitutional Offices	Non-Professional	Teachers
Change in proportion and difference between contribution and proportionate rate	\$ -	\$ 25,651	\$ 7,889,890
Differences between expected and actual experience	1,396,022	1,292,965	10,913,853
Net difference between projected and actual earnings on Plan investments	-	2,256,169	-
	<u>\$ 1,396,022</u>	<u>\$ 3,574,785</u>	<u>\$ 18,803,743</u>

Deferred Outflows of Resources			
	Agent Multiple-Employer Plans		Cost Sharing Plan
	City of Norfolk	School Board	School Board
	Constitutional Offices	Non-Professional	Teachers
Change in proportion and difference between contribution and proportionate rate	\$ -	\$ 1,815	\$ -
Net difference between projected and actual earnings on plan investments	2,318,179	4,194,555	19,238,731
	<u>\$ 2,318,179</u>	<u>\$ 4,196,370</u>	<u>\$ 19,238,731</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 \$2,406,428, \$26,582,248 and \$1,408,370, respectively in fiscal year 2017. 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	School Board	School Board
	Constitutional Employees	Political Subdivisions	Teachers
Year Ended:			
2018	\$ (441,285)	\$ (834,980)	\$ (4,774,568)
2019	(441,287)	(465,578)	(4,774,568)
2020	960,452	1,137,512	6,460,877
2021	844,277	784,630	4,355,478
2022	-	-	(832,231)
	<u>\$ 922,157</u>	<u>\$ 621,584</u>	<u>\$ 434,988</u>

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Plan Membership

As of June 30, 2015, 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	242	607
Inactive members:		
Vested	85	45
Non-vested	216	241
Active elsewhere in the VRS	194	95
Total inactive members	495	381
Active members	606	653
Total	1,343	1,641

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	\$ 92,801,934	\$ 85,491,030	\$ 7,310,904
Service cost	3,496,157	-	3,496,157
Interest	6,370,650	-	6,370,650
Difference between expected and actual	(1,331,914)	-	(1,331,914)
Contributions - employer	-	2,804,570	(2,804,570)
Contributions - employee	-	1,357,832	(1,357,832)
Net Investment income	-	1,525,201	(1,525,201)
Benefits payments, including refunds of employee contributions	(3,585,300)	(3,585,300)	-
Administrative expense	-	(52,120)	52,120
Other changes	-	(639)	639
Balance at June 30, 2017	\$ 97,751,527	\$ 87,540,574	\$ 10,210,953

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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	\$ 86,565,948	\$ 74,997,917	\$ 11,568,031
Service cost	1,527,216	-	1,527,216
Interest	5,891,204	-	5,891,204
Difference between expected and actual	(1,511,422)	-	(1,511,422)
Contributions - employer	-	1,794,211	(1,794,211)
Contributions - employee	-	800,642	(800,642)
Net Investment income	-	1,247,729	(1,247,729)
Benefits payments, including refunds of employee contributions	(4,814,364)	(4,814,364)	-
Administrative expense	-	(47,079)	47,079
Change in proportionate share	1,292	1,118	174
Other changes	-	(17,087)	17,087
Balance at June 30, 2017	\$ 87,659,874	\$ 73,963,087	\$ 13,696,787

All amounts reflected in this schedule are based on the School Board's proportionate share as of the June 30, 2016 measurement date for the June 30, 2017 net pension liability of 99.18 %.

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	\$ 23,712,196	\$ 13,696,787	\$ 5,230,293
City of Norfolk's constitutional offices net pension liability	\$ 24,027,629	\$ 10,210,953	\$ (1,177,077)
Cost Sharing Plans			
School Board Teachers net pension liability	\$ 480,091,600	\$ 336,787,153	\$ 218,739,307

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For the Year Ended June 30, 2017

Payables to the Pension Plan

As of June 30, 2017, the School Board reported a payable of \$196,144 for the outstanding amount of contributions to the political subdivision pension plan required for the year ended June 30, 2017.

As of June 30, 2017, the School Board reported a payable of \$3,922,838 for the outstanding amount of contributions to the teacher's pension plan required for the year ended June 30, 2017.

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 2017, the deferral may be up to 25 percent of gross income up to a maximum of \$18,000 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)

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 rather than use of an irrevocable trust and a separate financial report of the OPEB Plan is not issued. The Plan is considered a single-employer plan. As of July 1, 2012, the City became responsible for payment of the Line of Duty Act benefits (LODA). These benefits, which cover certain hazardous duty

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personnel who are paid or who volunteer, are included as OPEB obligations in the City's financial statements.

Funding Policy

No employee contributions are required prior to retirement to participate in or fund the OPEB Plan. The City and 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.

The annual required contribution was determined as part of the July 1, 2016 actuarial valuation using the entry age normal actuarial cost method. The amortization method is level percent open. The actuarial assumptions included: (a) 2.85% percent investment rate of return and (b) projected salary increases of 3.50% per year. Both (a) and (b) include a medical inflation component of 7.80% (pre-Medicare) grading to 3.0% over 19 years. The actuarial value of the City's assets is equal to the market value of assets. The remaining amortization period is a rolling 30 years.

Annual OPEB Cost and Net OPEB Obligation

The City's and the School Boards' annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with GASB Statements No. 43 and 45. Under these Statements, governments report on an accrual basis, benefit costs related to the period in which benefits are earned rather than to the period of benefit distribution. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

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

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Fiscal Year Ended Year	Annual Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed Percent Contributed	Net OPEB Obligation
City Employees and Retirees			
June 30, 2015	\$ 4,348,284	55%	\$ 31,718,764
June 30, 2016	\$ 4,700,233	43%	\$ 35,377,624
June 30, 2017	\$ 3,503,141	36%	\$ 38,363,563
Line of Duty Benefits			
June 30, 2015	\$ 1,416,115	44%	\$ 3,496,553
June 30, 2016	\$ 1,656,013	44%	\$ 4,428,100
June 30, 2017	\$ 1,689,617	49%	\$ 5,295,589
School Board Employees and Retirees			
June 30, 2015	\$ 2,934,793	90%	\$ 15,743,896
June 30, 2016	\$ 2,696,479	89%	\$ 16,172,527
June 30, 2017	\$ 3,326,670	78%	\$ 17,743,279

The actuarial liabilities of the Plans as of July 1, 2016, are shown below:

	City	Line of Duty	School Board	Total
Actuarial liability:				
Active employees	\$ 24,344,601	\$ 3,707,258	\$ 52,487,512	\$ 80,539,371
Retirees	5,302,966	18,577,177	7,802,523	31,682,666
Total actuarial liability	\$ 29,647,567	\$ 22,284,435	\$ 60,290,035	\$ 112,222,037
Less: Plan assets	-	-	-	-
Unfunded actuarial accrued liability (UAAL)	\$ 29,647,567	\$ 22,284,435	\$ 60,290,035	\$ 112,222,037

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

	City	Line of Duty	Schools	Total
Expected Net OPEB obligation as of June 30, 2016	\$ 35,377,624	\$ 4,428,100	\$ 16,172,527	\$ 55,978,251
Expected Employer contributions FY 2016	2,021,737	724,466	2,390,415	5,136,618
ACTUAL Employer Contributions FY 2016	(1,291,026)	(724,466)	(1,565,587)	(3,581,079)
Increase in net OPEB Obligation	730,711	-	824,828	1,555,539
Adjusted Net OPEB obligation as of June 30, 2016	36,108,335	4,428,100	16,997,355	57,533,790
Annual required contribution (ARC) for FY2017	3,602,218	1,701,767	3,373,308	8,677,293
Interest on net OPEB obligation	1,029,088	126,201	484,425	1,639,714
Adjustment to ARC	(1,128,165)	(138,351)	(531,063)	(1,797,579)
Annual OPEB COST	3,503,141	1,689,617	3,326,670	8,519,428
Less: expected contributions	(1,247,913)	(822,128)	(2,580,746)	(4,650,787)
Increase in net OPEB obligation	2,255,228	867,489	745,924	3,868,641
Net OPEB obligation as of June 30, 2017	\$ 38,363,563	\$ 5,295,589	\$ 17,743,279	\$ 61,402,431

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Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the combined OPEB Plans were unfunded. The combined actuarial accrued liability for benefits was \$112.2 million and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$112.2 million. The combined covered payroll of active City and School employees covered by the plan was \$389.9 million, and the ratio of the UAAL to the covered payroll was 23.1%. Additional details on the plan's funded status and funding progress are included as required supplementary information following these notes to the financial statements. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
CITY EMPLOYEES AND RETIREES						
July 1, 2016	\$ -	\$ 29,647,567	\$ 29,647,567	0.0%	\$ 193,036,535	15.4%
LINE OF DUTY BENEFITS						
July 1, 2016	\$ -	\$ 22,284,435	\$ 22,284,435	0.0%	\$ 66,136,233	33.7%
SCHOOL EMPLOYEES AND RETIREES						
July 1, 2016	\$ -	\$ 60,290,035	\$ 60,290,035	0.0%	\$ 196,825,107	30.6%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial valuation was performed as of July 1, 2016, with results projected for the fiscal year ended June 30, 2017. The entry age normal actuarial cost method was used with a level percent open amortization method over 30 years. A discount rate of 2.85% was used. Annual rates of health care inflation used were 7.8 % (pre-Medicare) grading to 3.00% over 19 years and the annual rate of salary increases used was 3.50%.

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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XIII. Interfund Receivable and Payable Balances

The composition of interfund activity as June 30, 2017, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Capital Projects fund	\$ 32,185,665
	Non-major governmental funds	192,447
	Water Utility fund	187,726
	Total General fund	<u>\$ 32,565,838</u>
Capital Projects fund	Parking Facilities fund	\$ 14,810,682
	Water Utility fund	12,698,572
	Wastewater Utility fund	289,782
	Non-major governmental funds	744,987
	Total Capital Projects fund	<u>\$ 28,544,023</u>
Non-major governmental funds	General fund	\$ 35,183
	Water Utility fund	64,132
		<u>99,315</u>
	Total Governmental funds	<u>\$ 61,209,176</u>
	Total Due from Other funds	<u>\$ 61,209,176</u>
<u>Payable Fund</u>	<u>Receivable Fund</u>	
General fund	Non-Major Governmental	\$ 35,183
		<u>\$ 35,183</u>
Capital Projects fund	General fund	\$ 32,185,665
	Total Capital Projects fund	<u>\$ 32,185,665</u>
Non-major governmental funds	Non-major governmental funds	\$ 192,447
	Capital Projects fund	744,987
	Total Non-major Governmental funds	<u>\$ 937,434</u>
	Total Governmental funds	<u>\$ 33,158,282</u>
<u>Payable Fund</u>	<u>Receivable Fund</u>	
Water Utility fund	General fund	\$ 187,726
	Capital Projects fund	\$ 12,698,572
	Non-major governmental funds	64,132
	Total Water Utility fund	<u>\$ 12,950,430</u>
Wastewater Utility fund	Capital Projects fund	\$ 289,782
	Total Wastewater Utility fund	<u>\$ 289,782</u>
Parking Facilities Fund	Capital Projects fund	\$ 14,810,682
	Total Parking Facilities fund	<u>\$ 14,810,682</u>
	Total Enterprise and Internal Service funds	<u>\$ 28,050,894</u>
	Total Due to Other funds	<u>\$ 61,209,176</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 2017:

Fund	In	Out
General	\$ 16,485,591	\$ 76,445,298
Capital Projects	6,162,594	1,326,330
Debt Service	77,812,952	-
Non-major Governmental	6,012,685	18,702,194
Water Utility	-	8,500,000
Wastewater Utility	-	1,500,000
Parking Facilities	-	-
	<u>\$ 106,473,822</u>	<u>\$ 106,473,822</u>

The purpose of the transfer balances are as follows:

General fund transfers in of \$16,485,591 include \$8,500,000 from the Water Utility fund, \$500,000 from the Waste Management fund, \$1,500,000 from the Wastewater Utility fund, \$3,985,591 from the Tax Increment Financing special revenue fund, and \$2,000,000 from the Public Amenities special revenue fund.

The General fund transfers out of \$76,445,298 represent a transfer of \$70,217,130 to the Debt Service fund to fund general obligation debt, \$1,847,393 to the Capital Projects fund as a contribution for the annual capital improvement plan budget, \$3,324,230 to the Grants special revenue fund in support of grant projects, \$232,748 to the Cemeteries special revenue fund, \$150,000 to the Towing & Recovery Operations special revenue fund and \$673,797 to the Emergency Operations Center/E-911 special revenue fund.

The Capital Projects fund transferred \$1,326,330 to the Grants special revenue fund for matching. Capital projects transfers in included \$1,847,393 from the General fund, \$3,000,000 from the Public Amenities special revenue fund and \$1,315,200 from the Storm Water special revenue fund.

Debt service transfers in of \$77,812,952 include \$3,190,083 from the Storm Water special revenue fund, \$1,677,717 from the Public Amenities special revenue fund, \$198,877 from the Towing & Recovery Operations special revenue fund, \$1,011,098 from the Waste Management special revenue fund, \$1,518,047 from the Tax Increment Financing special revenue fund and \$70,217,130 from the General fund to fund the current fiscal year's debt service payments.

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The Storm Water special revenue fund transferred \$3,190,083 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.

The Public Amenities special revenue fund transferred \$2,000,000 to the General fund, \$3,000,000 to the Capital Projects fund and \$1,677,717 to cover its general obligation debt service cost.

The Towing & Recovery Operations special revenue fund transferred \$198,877 to the Debt Service fund to cover its general obligation debt service cost.

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

The Tax Increment Financing special revenue fund transferred \$3,985,591 to the General fund and \$1,518,047 to the Debt Service fund.

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				
Nonspendable				
Inventory and Prepaid items	\$ -	\$ -	\$ -	\$ -
Total Nonspendable	-	-	-	-
Restricted				
General government	\$ 165,000	\$ -	\$ -	\$ 165,000
Judicial administration	-	-	71,954	71,954
Public safety	-	-	329,959	329,959
Public works	-	-	-	-
Health and public assistance	-	-	32,929	32,929
Culture and recreation	-	-	5,769,639	5,769,639
Community development	-	-	18,257	18,257
Total Restricted	165,000	-	6,222,738	6,387,738
Committed				
General government	8,697,809	-	-	8,697,809
Judicial administration	-	-	163,997	163,997
Public safety	-	-	149,192	149,192
Public works	-	-	5,407,535	5,407,535
Health and public assistance	-	-	24,678	24,678
Culture and recreation	-	-	126,417	126,417
Other purposes capital	-	-	-	-
Total Committed	8,697,809	-	5,871,819	14,569,628
Assigned				
General government	24,458,146	-	1,714,825	26,172,971
Judicial administration	-	-	-	-
Public safety	-	-	538,932	538,932
Public works	-	-	2,449,247	2,449,247
Health and public assistance	295,411	-	94,207	389,618
Culture and recreation	546,110	-	15,436,571	15,982,681
Community development	700,000	-	111,345	811,345
Education	-	-	-	-
(FY-2017 Budget appropriation)	10,605,374	-	-	10,605,374
Total Assigned	36,605,041	-	20,345,127	56,950,168
Unassigned				
Other	70,652,059	(190,870,542)	(931,602)	(121,150,085)
Total Unassigned	70,652,059	(190,870,542)	(931,602)	(121,150,085)
Total fund balances	\$ 116,119,909	\$ (190,870,542)	\$ 31,508,082	\$ (43,242,551)

There is a fund deficit in the Capital Projects fund of \$190,870,542 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 in order to reduce interest expense. The line of credit draws, over time, will be replaced with long-term debt.

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XVI. Deferred Inflow and Outflow of Resources

Deferred inflows and deferred outflows of resources, as represented in the entity wide and fund financial statements at June 30, 2017, are comprised of the following:

A. Unavailable Revenues

Deferred inflows in the General fund and non-major governmental funds, representing uncollected tax billings and other accounts receivable not available for funding of current expenditures, were \$29,312,151 and \$3,405,483, respectively as of June 30, 2017.

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 \$20,982,611 for governmental activities and \$16,936,685 for business-type activities which consists of a loss of \$8,375,879 for the Water Utility fund, \$3,100,306 for the Wastewater Utility fund and \$5,460,500 for Parking Facilities fund. Gains on the defeasance of debt are reported on the financial statements as deferred inflows of resources and were \$226,971 for governmental activities and \$19,565 for business-type activities, specifically \$17,730 for the Wastewater Utility fund and \$1,835 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, 2017, the amount reported as governmental activities was \$13,327,060 (which includes the Fleet Management fund of \$142,066), and the amounts reported in business-type activities were \$771,852 for the Water Utility fund, \$249,133 for the Wastewater Utility fund, and \$264,179 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 2017 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, 2017 financial statements are \$79,748,087 for governmental activities (which includes \$1,075,025, in the Fleet Management fund), \$4,920,511 for the Water Utility fund, \$1,437,340 for the Wastewater Utility fund and \$991,616 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, 2017, are as follows:

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Water Utility development projects	\$19,696,704
Wastewater Utility development projects	11,186,709
Parking Facilities development projects	<u>2,841,556</u>
Total	<u><u>\$33,724,969</u></u>

See Exhibit J-3 Schedule of Expenditures for listing of capital projects in the governmental activities, authorized at June 30, 2017.

B. Contingent Liabilities

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

The City was a guarantor for \$1,680,171 of VRA debt for the Southeastern Public Service Authority (SPSA) as of June 30, 2017. See Note XXI for more information on this guarantee and the SPSA joint venture.

C. Litigation

From time to time the City and its component units are defendants in a number of lawsuits. The City has received notice of threatened litigation for unlawful conviction and incarceration for four separate plaintiffs. No suits have been filed. Although it is not possible to determine the final outcome on these matters, management and the City Attorney are of the opinion that the liability will not be material and will not have a significant effect on the City's financial condition.

D. Pollution Remediation Obligation

GASB Statement 49, *Accounting and Financial Reporting 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

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

As of June 30, 2017, no liability exists.

	Primary Government			Amounts Due Within One Year
	Beginning Balance	Additions	Reductions	Ending Balance
<u>GOVERNMENTAL ACTIVITIES:</u>				
Pollution remediation obligation	\$ 404,711	\$ -	\$ 404,711	\$ -

E. Encumbrances

Encumbrances as of June 30, 2017, in the General fund and Capital Projects fund totaled \$12,565,944 and \$72,032,427 respectively. Encumbrances as of June 30, 2017, for non-major governmental funds in the aggregate totaled \$32,350,337.

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
	Anthony Burfoot, City Treasurer	1,500,000
	Robert J. McCabe, 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>

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XIX. Tax Abatements

As of June 30, 2017, 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, 2017, 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 incentive 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, 2017

		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, 2017

		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 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>2017</u> \$2,051,933	<u>2017</u> \$ -	<u>2017</u> \$15,231	<u>2017</u> \$3,157	<u>2017</u> \$1,117,238

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

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 2017 was \$8,844,802.

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, 2017, these liabilities were estimated at \$31,918,233 with \$4,491,003 projected as the current portion anticipated to be paid within a year. Estimated liabilities at the end of fiscal 2017 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 \$6,582,000 for medical and pharmacy claims incurred, but not reported as of June 30, 2017. 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, 2017, was \$6,786,007. 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 2017 and 2016 are as follows:

	Workers' Compensation and Risk Management		Health Insurance		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Estimated Outstanding Claims at the Beginning of year	\$ 29,296,575	\$ 29,476,369	\$ 6,187,000	\$ 6,187,000	\$ 35,483,575	\$ 35,663,369
Additional Incurred Claims or Changes in Estimates	8,420,622	6,855,246	80,841,472	76,595,222	89,262,094	83,450,468
Claims Paid	(5,798,964)	(7,035,040)	(80,446,472)	(76,595,222)	(86,245,436)	(83,630,262)
Estimated Outstanding Claims at the End of year	<u>\$ 31,918,233</u>	<u>\$ 29,296,575</u>	<u>\$ 6,582,000</u>	<u>\$ 6,187,000</u>	<u>\$ 38,500,233</u>	<u>\$ 35,483,575</u>

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

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, 2017, projected at \$3,631,204 of which \$355,895 is the current portion and a longer-term projection of \$3,275,309. 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 2016 and 2017 are as follows:

	Estimated Outstanding Losses Beginning of Fiscal Year	Additional Incurred Claims and/or Changes in Estimate	Claims Paid	Estimated Outstanding Losses End of Fiscal Year
2016	\$ 3,582,003	\$ 737,567	\$ (585,535)	\$ 3,734,035
2017	\$ 3,734,035	\$ 237,046	\$ (339,877)	\$ 3,631,204

XXI. Jointly Governed Organizations

A. Hampton Roads Regional Jail Authority

The Hampton Roads Regional Jail Authority (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. The 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 15-member Board of Directors, consisting of three representatives appointed by each of the member cities. The budgeting and financing of the HRRJA are subject to the approval of the Board of Directors, with each member having a single vote. The 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, 2017. Complete financial statements of the HRRJA can be obtained from the HRRJA.

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

B. Hampton Roads Planning District Commission

The Hampton Roads Planning District Commission (Commission) is 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, 2017. Complete financial statements of the Commission can be obtained from the Commission.

C. Transportation District Commission of Hampton Roads

The Transportation District Commission of Hampton Roads (TDC) is the governing body for Hampton Roads Transit (HRT), a political subdivision of the Commonwealth. HRT 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. HRT 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 HRT rests with professional management. HRT was constructed the City's light rail system.

The participating governments do not have an equity interest in the TDC, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2017. Complete financial statements of the TDC can be obtained from the TDC.

XXII. Joint Ventures

A. Southeastern Public Service Authority

The Southeastern Public Service Authority (SPSA) is a joint venture of the cities of Chesapeake, Franklin, Norfolk, Portsmouth, Suffolk and Virginia Beach and the counties of Isle of Wight and Southampton, created for the purpose of providing, operating and maintaining a regional system for the collection, transfer, processing and disposal of solid waste refuse. The 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 the SPSA is subject to the approval of the Board of Directors, with each member having a single vote. The SPSA is responsible for its own financial matters,

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

maintains its own books of account and is audited annually by independent accountants that it engages.

In June 2010, the 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 member community guarantee percentages were calculated based on a three-year average of proportional municipal tonnages. The member jurisdiction guarantees as of June 30, 2017, were as follows:

<u>Member community</u>	<u>Guarantee percentage</u>	<u>Principal guarantee</u>
Chesapeake	22.49%	\$ 2,225,386
Franklin	0.97%	95,982
Isle of Wight	3.98%	393,821
Norfolk	16.98%	1,680,171
Portsmouth	10.27%	1,016,217
Southampton	2.10%	207,795
Suffolk	12.87%	1,273,487
Virginia Beach	30.34%	3,002,143
	100.00%	\$ 9,895,002

The participating governments do not have an equity interest in the SPSA, and accordingly, no equity interest has been reflected in the City's financial statements June 30, 2017. Complete financial statements of the SPSA can be obtained from the SPSA.

B. Slover Library Foundation

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

CITY OF NORFOLK, VIRGINIA
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For the Year Ended June 30, 2017

XXIII. Related Organizations

A. Norfolk Redevelopment and Housing Authority

The Norfolk Redevelopment and Housing Authority (NRHA), a political subdivision of the Commonwealth, was created by the City on July 30, 1940, under the provisions of the United States Housing Act of 1937. The NRHA provides subsidized public housing and administers redevelopment and conservation efforts within the City in accordance with State and federal legislation. The seven-member governing Board of Commissioners is appointed by City Council. The NRHA is responsible, through a contract with the City, for the administration of such activities as community development and urban renewal. The City does not exercise a significant degree of oversight responsibility for the NRHA. The NRHA develops its own operating budget without approval from City Council and executes contracts on its own behalf. It 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 the NRHA to complete specific projects, generally capital improvement projects.

The City had two significant projects with the NRHA during FY17: (1) Waterside District (Waterside) redevelopment; and (2) The Main Hotel and Conference Center (The Main) and its associated parking facility. The City conveyed ownership of Waterside to the NRHA and agreed to provide \$32 million in development support. NRHA will operate Waterside. The City and Professional Hospitality Resources, Inc. finalized construction of The Main and parking garage, which opened at the end of fiscal year 2017. The City agreed to contribute up to \$64 million to the development costs. The Main and parking garage will initially be owned by NRHA, with plans for ownership to revert to the City once all agreements have been finalized. The ownership of the parking garage reverted to the City in early FY18.

B. Norfolk Airport Authority

The Norfolk Airport Authority (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 (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,

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

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, Incorporated

The Chrysler Museum, Incorporated (Museum), a Virginia non-stock, not-for-profit organization, was formed on January 1, 1980. 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's building and provides support for its maintenance.

D. Hospital Authority of Norfolk

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

XXIV. Subsequent Events

On December 5, 2017, the City completed a three-prong sale of \$166,385,000 in General Obligation Bonds.

The City issued its \$103,520,000 General Obligation Capital Improvement Bonds, Series 2017A.

Further, the City completed the taxable sale of \$3,590,000 of General Obligation Capital Improvement Bonds, Series 2017B.

Additionally, the City completed the sale of \$59,275,000 of General Obligation Refunding Bonds, Series 2017C for savings. Aggregate total net present value savings of \$3,449,169, or 5.35% of the original debt service requirements.

On December 18, 2017, the City completed the sale of \$134,545,000 in Water Revenue Refunding Bonds, Series 2017 for savings. Aggregate total net present value savings were \$8,612,248, or 6.00% of the original debt service requirements.

On September 13, 2017, 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, 2017, to December 17, 2018.

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

XXV. Adoption of New Accounting Pronouncements

- GASB Statement No. 77, *Tax Abatement Disclosures*. This statement requires governments to disclosure certain information related to tax abatements and other limitations on the revenue-raising capacity. The requirements are effective for financial statement periods beginning after December 15, 2015. See footnotes for new disclosures. There was no impact on net position or results of operations.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units*. This statement establishes additional blending requirements for financial statement presentation of component units. It amends Statements No 14, *The Financial Reporting Entity*. The requirements for this statement are effective for reporting periods beginning after June 15, 2016. There was no impact on net position or results of operations.
- GASB Statement No. 82, *Pension Issues*. This statement amends GASB 67, 68 and 73 regarding accounting and financial reporting for pensions. This Statement is effective for reporting periods beginning after June 15, 2016. There was no impact on net position or results of operations.

XXVI. 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. 74, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*. Statement 74 addresses reporting by OPEB plans that administer benefits on behalf of governments and basically parallels GASB Statement 67 and replaces GASB statement 43. The Statement is effective for fiscal years beginning after June 15, 2016. As the City's OPEB plan is unfunded, there are no plan financial statements.
- 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.
- 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.

CITY OF NORFOLK, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

- 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. 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.
- 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.



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

(Unaudited)





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CITY OF NORFOLK, VIRGINIA

CITY OF NORFOLK

Schedule of Funding Progress for Other Post-employment Benefit Plans (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a percentage of covered payroll
<u>Other Post-employment Benefits (OPEB):</u>						
CITY EMPLOYEES AND RETIREES						
July 1, 2010	\$ -	\$ 60,204,591	\$ 60,204,591	0.0%	\$ 175,976,672	34.2%
July 1, 2011	\$ -	\$ 58,495,183	\$ 58,495,183	0.0%	\$ 170,921,920	34.2%
July 1, 2012	\$ -	\$ 57,193,058	\$ 57,193,058	0.0%	\$ 167,592,964	34.1%
July 1, 2013	\$ -	\$ 52,314,519	\$ 52,314,519	0.0%	\$ 180,447,292	29.0%
July 1, 2014	\$ -	\$ 37,979,717	\$ 37,979,717	0.0%	\$ 178,792,255	21.2%
July 1, 2015	\$ -	\$ 35,017,689	\$ 35,017,689	0.0%	\$ 182,340,976	19.2%
July 1, 2016	\$ -	\$ 29,647,567	\$ 29,647,567	0.0%	\$ 193,036,535	15.4%
LINE OF DUTY BENEFITS						
July 1, 2012	\$ -	\$ 18,584,711	\$ 18,584,711	0.0%	\$ 61,145,036	30.4%
July 1, 2013	\$ -	\$ 19,945,627	\$ 19,945,627	0.0%	\$ 62,477,160	31.9%
July 1, 2014	\$ -	\$ 15,909,450	\$ 15,909,450	0.0%	\$ 61,932,622	25.7%
July 1, 2015	\$ -	\$ 17,827,930	\$ 17,827,930	0.0%	\$ 60,274,490	29.6%
July 1, 2016	\$ -	\$ 22,284,435	\$ 22,284,435	0.0%	\$ 66,136,233	33.7%
SCHOOL EMPLOYEES AND RETIREES						
July 1, 2010	\$ -	\$ 82,776,654	\$ 82,776,654	0.0%	\$ 198,660,313	41.7%
July 1, 2011	\$ -	\$ 77,556,192	\$ 77,556,192	0.0%	\$ 171,691,191	45.2%
July 1, 2012	\$ -	\$ 69,496,659	\$ 69,496,659	0.0%	\$ 186,413,340	37.3%
July 1, 2013	\$ -	\$ 46,450,857	\$ 46,450,857	0.0%	\$ 183,295,993	25.3%
July 1, 2014	\$ -	\$ 39,834,022	\$ 39,834,022	0.0%	\$ 186,834,233	21.3%
July 1, 2015	\$ -	\$ 42,088,034	\$ 42,088,034	0.0%	\$ 179,913,077	23.4%
July 1, 2016	\$ -	\$ 60,290,035	\$ 60,290,035	0.0%	\$ 196,825,107	30.6%
TOTAL						
July 1, 2010	\$ -	\$ 142,981,245	\$ 142,981,245	0.0%	\$ 374,636,985	38.2%
July 1, 2011	\$ -	\$ 136,051,375	\$ 136,051,375	0.0%	\$ 342,613,111	39.7%
July 1, 2012	\$ -	\$ 145,274,428	\$ 145,274,428	0.0%	\$ 415,151,340	35.0%
July 1, 2013	\$ -	\$ 118,711,003	\$ 118,711,003	0.0%	\$ 426,220,445	27.9%
July 1, 2014	\$ -	\$ 93,723,189	\$ 93,723,189	0.0%	\$ 427,559,110	21.9%
July 1, 2015	\$ -	\$ 94,933,653	\$ 94,933,653	0.0%	\$ 422,528,543	22.5%
July 1, 2016	\$ -	\$ 112,222,037	\$ 112,222,037	0.0%	\$ 455,997,875	24.6%

See accompanying independent auditors' report

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

	2017	2016	2015
Total Pension Liability			
Service Costs	\$ 25,919,058	\$ 25,467,399	\$ 24,578,759
Interest	84,710,490	82,839,251	80,203,196
Changes of benefit terms	568,480	352,800	20,689,842
Difference between expected and actual experience	(2,665,615)	(2,471,392)	(10,654,079)
Changes in assumptions	(6,508,735)	-	-
Benefits payments, including refunds of member contributions	(80,783,975)	(79,031,490)	(77,065,376)
Net change in total pension liability	21,239,703	27,156,568	37,752,342
Total Pension Liability - Beginning	1,224,622,781	1,197,466,213	1,159,713,871
Total Pension Liability - Ending	<u>\$ 1,245,862,484</u>	<u>\$ 1,224,622,781</u>	<u>\$ 1,197,466,213</u>
Plan Fiduciary Net position			
Employer contributions	\$ 30,761,340	\$ 34,932,005	\$ 42,330,492
Employee contributions	8,733,481	4,914,726	1,671,644
Net investment income	3,278,018	16,596,553	157,291,834
Benefit payments, including refunds of member contributions	(80,783,975)	(79,031,489)	(77,065,376)
Administrative expense	(671,568)	(386,495)	(412,809)
Net change in Fiduciary Net Position	(38,682,704)	(22,974,700)	123,815,785
Total Net Position - Restated Beginning	1,013,204,260	1,036,178,960	912,363,175
Total Net Position - Ending	<u>\$ 974,521,556</u>	<u>\$ 1,013,204,260</u>	<u>\$ 1,036,178,960</u>
Net Pension Liability	<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	78.22%	82.74%	86.53%
Covered-Employee payroll	\$ 175,678,692	\$ 178,467,817	\$ 177,560,789
Net Pension liability as a percentage of covered employee payroll	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 Employee Payroll **	Contributions as a % of Covered Employee Payroll
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%
2008	25,136	25,136	-	175,390	14.33%

* 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-employee payroll was provided by the actuary. For the years 2014 through 2017, 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

	2017	2016	2015
Total Pension Liability			
Service costs	\$ 3,496,157	\$ 3,531,000	\$ 3,600,000
Interest	6,370,650	6,001,000	5,574,000
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(1,331,914)	(763,000)	-
Changes in assumptions	-	-	-
Benefits payments, including refunds of member contributions	(3,585,300)	(3,377,000)	(2,798,000)
Net change in total pension liability	4,949,593	5,392,000	6,376,000
Total Pension Liability - Beginning	92,801,934	87,410,000	81,034,000
Total Pension Liability - Ending	<u>\$ 97,751,527</u>	<u>\$ 92,802,000</u>	<u>\$ 87,410,000</u>
Plan Fiduciary Net position			
Employer contributions	\$ 2,804,570	\$ 2,830,000	\$ 3,167,000
Employee contributions	1,357,832	1,373,000	1,422,000
Projected earnings on plan investments	1,525,201	3,742,000	10,933,000
Benefit payments, including refunds of member contributions	(3,585,300)	(3,377,000)	(2,798,000)
Administrative expense	(52,120)	(50,000)	(57,000)
Other	(639)	(3,000)	1,000
Net change in Fiduciary Net Position	2,049,544	4,515,000	12,668,000
Total Net Position - Restated Beginning	85,491,030	80,975,000	68,307,000
Total Net Position - Ending	<u>\$ 87,540,574</u>	<u>\$ 85,490,000</u>	<u>\$ 80,975,000</u>
Net Pension Liability	<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	89.55%	92.12%	92.64%
Covered-Employee payroll	\$ 27,083,985	\$ 26,861,778	\$ 26,952,068
Net Pension liability as a percentage of covered employee payroll	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 Employee Payroll	Contributions as a % of Covered Employee Payroll
2017	\$ 2,406	\$ 2,406	\$ -	\$ 27,617	8.71%
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%
2008	2,376	2,376	-	25,855	9.19%

Note: Covered employee payroll prior to June 30, 2014, was calculated on payroll subject to pension coverage. Under GASB 68, covered employee 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 Systems Teachers Retirement Plan
Schedule of the School Board's Proportionate Share of the Net Pension Liability (unaudited)
For Fiscal Years
(Amounts in thousands)

	2017	2016	2015
School Board's proportion of the Net Pension Liability	2.400%	2.430%	2.467%
School Board's proportionate share of the Net Pension Liability	\$ 336,787	\$ 305,901	\$ 298,089
Covered-Employee payroll	\$ 194,172	\$ 189,624	\$ 189,067
School Board's proportionate of the Net Pension Liability as a percentage of its covered-employee payroll	173%	161%	158%
Plan fiduciary net position as a percentage of the total pension liability	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 Systems Teachers Retirement Plan
Schedule of School Boards' 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 Employee Payroll	Contributions as a % of Covered Employee Payroll
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%
2008	32,696	32,696	-	152,536	21.43%

Note: Covered employee payroll prior to June 30, 2014, was calculated on payroll subject to pension coverage. Under GASB 68, covered employee 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 Plan for Political Subdivisions

Schedule of Changes in the School Board's Net Pension Liability and Related Ratios (unaudited)
For Fiscal Years
(Amounts in thousands)

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

*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. 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 Plan for 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 Employee Payroll	Contributions as a % of Covered Employee Payroll
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%
2008	2,443	2,443	-	17,440	14.01%

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

CITY OF NORFOLK, VIRGINIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended JUNE 30, 2017

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 was a new benefit and number of participants was small, the impact on the liabilities as of the measurement date of June 30, 2016 are not material.

The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study for the four-year period ending June 30, 2012:

- Used the following mortality tables:
 - RP-2000 Employee Mortality Table
 - RP-2000 Combined Mortality Table
 - RP-2000 Disability Mortality Table
- Adjusted the rates of service retirement
- Decreased the rates of withdrawals for 3 through 9 years of service
- Decreased the rates of disability
- Reduced the rates of salary increase by 0.25% per year

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. The liabilities presented do not reflect the hybrid plan since it covers new members joining VRS after the valuation date of June 30, 2013. Because this was a new benefit and number of participants was small, the impact on the liabilities as of the measurement date of June 30, 2016 are not material.

The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study for the four-year period ending June 30, 2012:

- Used the following mortality tables:
 - RP-2000 Employee Mortality Table
 - RP-2000 Combined Mortality Table
 - RP-2000 Disability Mortality Table
- Decreased the rates of service retirement
- Decreased the rates of disability retirement
- Reduced the rates of salary increase by 0.25% per year

CITY OF NORFOLK, VIRGINIA

Exhibit E-1

**Schedule of Revenue, Budget and Actual (Unaudited)
General Fund
For the Year Ending June 30, 2017**

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance with Final Budget
General property taxes	\$ 264,677,000	\$ 264,677,000	\$ 264,432,379	\$ (244,621)
Other local taxes	162,741,400	162,026,400	159,645,817	(2,380,583)
Permits, privilege fees and licenses	3,007,600	3,007,600	3,576,366	568,766
Fines and forfeitures	1,275,000	1,275,000	920,282	(354,718)
Use of money and property	7,368,359	7,368,359	7,530,410	162,051
Charges for services	26,386,109	26,386,109	26,343,778	(42,331)
Miscellaneous revenue	8,734,009	8,734,009	13,293,768	4,559,759
Recovered costs	12,161,408	12,161,408	11,979,494	(181,914)
Non-categorical aid - Virginia	33,707,100	33,707,100	34,584,470	877,370
Shared expense - Virginia	21,102,700	21,102,700	20,626,230	(476,470)
Categorical aid - Virginia	261,525,276	262,240,276	259,643,638	(2,596,638)
Categorical aid - Federal	8,410,596	8,410,596	8,379,877	(30,719)
Other sources and transfers	23,945,795	28,345,795	28,054,896	(290,899)
Total revenue budget	\$ 835,042,352	\$ 839,442,352	\$ 839,011,405	\$ (430,947)

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, 2017

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance with Final Budget
Legislative	\$ 4,934,614	\$ 4,934,613	\$ 4,653,866	\$ 280,747
Executive	2,292,447	1,981,639	1,851,872	129,767
Department of Law	4,499,892	4,499,892	4,422,558	77,334
Finance, City Treasurer, Commissioner of Revenue	9,909,115	10,316,445	10,059,835	256,610
Department of Human Resources	3,496,562	3,496,562	3,300,071	196,491
Courts, Sheriff and Detention	51,157,351	51,157,351	48,013,327	3,144,024
Department of Public Health	3,468,419	3,468,419	3,379,433	88,986
Department of Human Services	73,176,586	73,838,763	70,163,188	3,675,575
Department of Public Works	26,702,280	26,702,280	25,914,814	787,466
Recreation Parks and Open Space, Maritime Center	22,422,937	22,422,937	21,695,584	727,353
Education	321,868,495	321,868,495	311,453,375	10,415,120
Norfolk Public Libraries	11,689,510	11,689,510	11,220,394	469,116
Elections	895,986	895,986	833,325	62,661
Department of Planning & Community Development	4,980,151	4,980,151	4,653,283	326,868
Department of Neighborhood Development	4,154,653	4,154,653	4,000,195	154,458
Department of Cultural Facilities, Arts & Entertainment	5,703,491	5,703,491	5,725,239	(21,748)
Departmental Support	17,781,751	16,788,158	13,777,318	3,010,840
Outside Agencies	42,674,365	42,339,188	44,277,536	(1,938,348)
Department of Police	68,500,916	68,500,916	68,693,823	(192,907)
Department of Fire and Rescue	42,592,138	42,592,138	42,839,485	(247,347)
Debt service	65,747,190	70,622,190	69,717,235	904,955
Office of Budget and Strategic Planning	1,483,079	1,403,842	1,257,548	146,294
Resilience	253,231	243,731	418,051	(174,320)
General Services	24,399,559	24,284,559	24,511,757	(227,198)
Economic Development	2,032,161	2,032,161	1,992,530	39,631
Communications and Public Relations	1,573,966	1,872,774	1,885,015	(12,241)
Department of Information Technology	12,167,891	12,167,891	12,523,156	(355,265)
Virginia Zoological Park	4,196,665	4,196,666	4,069,384	127,282
Office of Homelessness	286,951	286,951	258,432	28,519
Total expenditure budget	<u>\$ 835,042,352</u>	<u>\$ 839,442,352</u>	<u>\$ 817,561,629</u>	<u>\$ 21,880,723</u>

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, 2017

	General Fund
<u>Sources/inflows of resources:</u>	
Actual amounts (budgetary basis) "available for appropriation" from Exhibit E-1	\$ 839,011,405
Differences--budget to GAAP:	
The effects of accounting for school revenue as a component unit	(195,726,405)
The effects of accounting for transfer from fund balance	(8,420,031)
General fund transfers from other funds are inflows of budgetary resources, but are not revenues for financial reporting purposes	(16,485,591)
The effects of reclassification of recovered costs	(9,472,429)
The effects of accounting for Capital Leases as revenues	(6,079,647)
Total revenues as reported on the Statement of Revenues, Expenditure and Changes in Fund Balances - Governmental Funds	<u>\$ 602,827,302</u>
<u>Uses/outflows of resources:</u>	
Actual amounts (budgetary basis) "Total charges to appropriations" from Exhibit E-2	\$ 817,561,629
Differences--budget to GAAP:	
The effects of accounting for school expenditures as a component unit	(203,972,442)
The effects of accounting for Special Revenue fund as a non major fund	10,502
The effects of reclassification of recovered costs	(9,472,429)
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	12,758,839
General fund transfers to other funds are outflows of budgetary resources, but are not expenditures for financial reporting purposes	(76,445,298)
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	<u>\$ 540,440,801</u>

There were no material violations of the annual appropriated budget for the General fund for fiscal year 2017.



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OTHER SUPPLEMENTARY INFORMATION

COMBINING FINANCIAL STATEMENTS

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

OTHER SCHEDULES

~ Schedule of Expenditures of Federal Awards ~

~ Notes to Schedule of Expenditures of Federal Awards ~

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

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

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





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Non-major 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, 2017

Special Revenue Funds													Nonmajor Governmental Funds	
	Storm Water	Towing	Waste Management	Grants	Community Development	Cemeteries	Golf	Public Amenities	EOC/ 911	Tax Increment	Resiliency	Total Special Revenue	Endowed Care Fund	
ASSETS														
Cash and short-term investments	\$ 1,330,061	\$ 18,406	\$ 2,227,350	\$ 4,811,883	\$ -	\$ 151,093	\$ 248,184	\$ 15,156,671	\$ 216,508	\$ 1,714,825	\$ -	\$ 25,874,981	\$ 5,648,765	\$ 31,523,746
Receivables, net	2,898,487	13,377	2,541,180	1,076,746	473,413	76,089	-	706,281	-	-	-	7,785,573	4,920	7,790,493
Accrued investment income	77	19,662	88	8	-	-	-	-	-	-	-	19,835	-	19,835
Due from other funds	64,132	-	35,183	-	-	-	-	-	-	-	-	99,315	-	99,315
Due from other governments	90,507	-	-	7,264,928	731,216	-	-	-	4,466	-	821,582	8,912,699	-	8,912,699
Prepaid	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted cash and cash equivalents	-	-	-	-	5,000	-	-	-	-	-	-	5,000	-	5,000
Total assets	\$ 4,383,264	\$ 51,445	\$ 4,803,801	\$ 13,153,565	\$ 1,209,629	\$ 227,182	\$ 248,184	\$ 15,862,952	\$ 220,974	\$ 1,714,825	\$ 821,582	\$ 42,697,403	\$ 5,653,685	\$ 48,351,086
LIABILITIES, DEFERRED INFLOWS														
Vouchers payable	\$ 284,813	\$ 7,013	\$ 1,074,317	\$ 1,720,742	\$ 306,714	\$ 34,529	\$ -	\$ 1,848,294	\$ 68,122	\$ -	\$ 1,964	\$ 5,346,508	\$ -	\$ 5,346,508
Contract retainage	15,782	-	-	123,459	-	-	-	-	-	-	-	139,241	-	139,241
Accrued payroll	78,919	8,722	65,886	26,508	-	21,792	-	-	69,939	-	-	271,766	-	271,766
Accrued expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unearned revenue	-	-	-	6,730,445	-	-	-	-	-	-	-	6,730,445	-	6,730,445
Due to other funds	-	-	-	-	117,816	-	-	-	-	-	819,618	937,434	-	937,434
Due to component units	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	324	11,805	-	-	-	-	-	-	-	-	-	12,129	-	12,129
Total liabilities	379,838	27,540	1,140,203	8,601,154	424,530	56,321	-	1,848,294	138,061	-	821,582	13,437,523	-	13,437,523
DEFERRED INFLOWS OF RESOURCES														
Revenue not available for current obligations	501,019	-	1,996,314	-	780,089	128,051	-	-	-	-	-	3,405,483	-	3,405,483
FUND BALANCES														
Nonspendable	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	564,053	5,000	-	-	-	-	-	-	569,053	5,653,685	6,222,738
Committed	3,502,407	-	-	2,331,609	-	-	37,803	-	-	-	-	5,871,819	-	5,871,819
Assigned	-	23,905	1,667,284	2,586,351	-	42,810	210,381	14,014,658	82,913	1,714,825	-	20,345,127	-	20,345,127
Unassigned	-	-	-	(931,602)	-	-	-	-	-	-	-	(931,602)	-	(931,602)
Total fund balances	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	-	25,854,387	5,653,685	31,508,082
Total liabilities and fund balances	\$ 4,383,264	\$ 51,445	\$ 4,803,801	\$ 13,153,565	\$ 1,209,629	\$ 227,182	\$ 248,184	\$ 15,862,952	\$ 220,974	\$ 1,714,825	\$ 821,582	\$ 42,697,403	\$ 5,653,685	\$ 48,351,086

**Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ending June 30, 2017**

Special Revenue Funds													Total Nonmajor Governmental Funds
Storm Water	Towing	Waste Management	Grants	Community Development	Cemeteries	Golf	Public Amenities	EOC/ 911	Tax Increment	Resiliency	Total Special Revenue	Endowed Care Fund	
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
General property taxes	-	-	-	-	-	-	-	-	5,384,000	-	5,384,000	-	5,384,000
Other local taxes	-	-	-	-	-	-	6,321,566	3,571,596	-	-	9,893,162	-	9,893,162
Fines and forfeitures	-	-	595	-	-	-	-	-	-	-	595	-	595
Use of money and property	590	-	9,282	124	-	37,269	-	-	-	-	47,265	43,384	90,649
Charges for services	15,802,425	1,232,549	20,848,071	304,953	-	1,314,201	-	2,617	-	-	39,604,616	176,831	39,781,447
Miscellaneous	107,607	6,530	28,522	2,212,809	-	-	-	-	-	-	2,736,588	-	2,736,588
Intergovernmental:													
Commonwealth of Virginia	112,903	-	-	14,401,085	-	-	-	1,653,041	-	-	16,167,029	-	16,167,029
Federal government	88,430	4,474	-	15,371,459	-	-	-	-	-	821,582	19,938,962	-	19,938,962
Total revenue	16,111,955	1,243,553	20,985,875	32,291,025	1,314,201	37,269	6,321,566	5,227,254	5,384,000	821,582	93,772,417	220,215	93,992,632
EXPENDITURES													
General government	-	-	-	-	-	-	6,758,092	-	-	-	8,788,689	-	8,788,689
Judicial administration	-	-	-	-	-	-	-	-	-	-	3,170,032	-	3,170,032
Public safety	-	-	-	-	-	-	-	5,973,118	-	-	10,860,677	-	10,860,677
Public works	11,197,700	1,211,322	20,681,749	5,051,590	-	-	-	-	-	-	38,142,361	-	38,142,361
Health and public assistance	-	-	-	873,788	-	-	-	-	-	-	17,089,123	-	17,089,123
Cultural and recreation	-	-	-	364,631	-	9,000	-	-	-	-	2,278,158	-	2,278,158
Community development	-	-	-	1,870,485	-	-	-	-	-	821,582	4,208,467	-	4,208,467
Miscellaneous	-	-	-	1,656,410	-	-	-	-	-	-	1,656,410	-	1,656,410
Capital Outlay	-	-	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	11,197,700	1,211,322	20,681,749	33,236,144	1,905,327	9,000	6,758,092	5,973,118	-	-	86,194,917	-	86,194,917
Excess (deficiency) of revenue over (under) expenditures	4,914,255	32,231	304,126	(945,119)	(591,326)	28,269	(436,526)	(745,864)	5,384,000	-	7,577,500	220,215	7,797,715
OTHER FINANCING SOURCES (USES)													
Transfers in	-	150,000	-	4,650,560	-	-	538,328	673,797	-	-	6,012,685	-	6,012,685
Transfers out	(4,505,283)	(198,877)	(1,511,098)	-	-	-	(6,677,717)	-	(5,503,639)	-	(18,386,614)	(305,580)	(18,702,194)
Total other financing sources and uses	(4,505,283)	(48,877)	(1,511,098)	4,650,560	-	-	538,328	673,797	(5,503,639)	-	(12,383,929)	(305,580)	(12,689,509)
Net change in fund balances	408,972	(16,646)	(1,206,972)	3,705,441	(966,546)	28,269	(7,114,243)	(72,067)	(119,639)	-	(4,806,429)	(86,365)	(4,891,794)
Fund balances--beginning	3,093,435	40,551	2,874,256	846,970	371,546	219,915	21,128,901	154,980	1,834,464	-	30,660,826	5,739,050	36,399,876
Fund balances--ending	\$ 3,502,407	\$ 23,905	\$ 1,667,284	\$ 4,552,411	\$ 5,000	\$ 248,184	\$ 14,014,658	\$ 82,913	\$ 1,714,825	\$ -	\$ 25,854,397	\$ 5,653,685	\$ 31,508,082

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 health care costs for the City of Norfolk, Norfolk Public Schools, NHRA 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, 2017**

	Healthcare	Fleet Management	Total
ASSETS			
Current assets:			
Cash and short-term investments	\$ 11,452,593	\$ 731,921	\$ 12,184,514
Receivables, net	1,283,735	181,598	1,465,333
Total current assets	<u>12,736,328</u>	<u>913,519</u>	<u>13,649,847</u>
Noncurrent assets:			
Capital assets:			
Land	-	415,000	415,000
Buildings and equipment	-	10,998,442	10,998,442
Accumulated depreciation	-	(7,949,001)	(7,949,001)
Total noncurrent assets	<u>-</u>	<u>3,464,441</u>	<u>3,464,441</u>
Deferred outflows of resources			
Related to pensions	-	1,075,025	1,075,025
Total assets	<u>\$ 12,736,328</u>	<u>\$ 5,452,985</u>	<u>\$ 18,189,313</u>
LIABILITIES			
Current liabilities:			
Vouchers payable	\$ 551,134	\$ 80,971	\$ 632,105
Unearned revenue	6,786,007	-	6,786,007
Compensated absences	-	153,741	153,741
Accrued payroll	-	44,794	44,794
Other liabilities	6,582,000	1,504	6,583,504
Total current liabilities	<u>13,919,141</u>	<u>281,010</u>	<u>14,200,151</u>
Noncurrent liabilities:			
Compensated absences	-	112,800	112,800
Net pension obligations	-	3,060,974	3,060,974
Total noncurrent liabilities	<u>-</u>	<u>3,173,774</u>	<u>3,173,774</u>
Deferred inflows of resources			
Related to pensions	-	142,066	142,066
Total liabilities	<u>\$ 13,919,141</u>	<u>\$ 3,596,850</u>	<u>\$ 17,515,991</u>
NET POSITION			
Net investment in capital assets	\$ -	\$ 3,464,441	\$ 3,464,441
Unrestricted	<u>(1,182,813)</u>	<u>(1,608,306)</u>	<u>(2,791,119)</u>
Total net position	<u>\$ (1,182,813)</u>	<u>\$ 1,856,135</u>	<u>\$ 673,322</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, 2017**

	Healthcare	Fleet Management	Total
OPERATING REVENUES			
Charges for services	\$ 76,701,241	\$ 11,111,631	\$ 87,812,872
Miscellaneous	-	36,150	36,150
Total operating revenues	<u>76,701,241</u>	<u>11,147,781</u>	<u>87,849,022</u>
OPERATING EXPENSES			
Personal services	-	2,830,565	2,830,565
Healthcare costs	80,446,472	-	80,446,472
Cost of goods sold	-	3,311,951	3,311,951
Plant operations	-	4,177,448	4,177,448
Depreciation and amortization	-	258,678	258,678
Retirement and OPEB expense	-	380,496	380,496
Other	-	241,507	241,507
Total operating expenses	<u>80,446,472</u>	<u>11,200,645</u>	<u>91,647,117</u>
Operating income (loss)	<u>(3,745,231)</u>	<u>(52,864)</u>	<u>(3,798,095)</u>
Net income (loss)	<u>(3,745,231)</u>	<u>(52,864)</u>	<u>(3,798,095)</u>
Net change in net position	<u>(3,745,231)</u>	<u>(52,864)</u>	<u>(3,798,095)</u>
Net position - beginning	2,562,418	1,908,999	4,471,417
Net position - ending	<u><u>\$ (1,182,813)</u></u>	<u><u>\$ 1,856,135</u></u>	<u><u>\$ 673,322</u></u>

CITY OF NORFOLK, VIRGINIA

Exhibit G-3

**Combining Statement of Cash Flows - Internal Service Funds
For the Year Ended June 30, 2017**

	Healthcare	Fleet Management	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 82,344,940	\$ 10,986,967	\$ 93,331,907
Payments to employees	-	(3,189,670)	(3,189,670)
Payments to suppliers	(82,302,538)	(8,194,915)	(90,497,453)
Other payments	-	(241,813)	(241,813)
Net cash provided by (used in) operating activities	<u>42,402</u>	<u>(639,431)</u>	<u>(597,029)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Interfund activity	<u>-</u>	<u>(50,403)</u>	<u>(50,403)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchases of capital assets		(71,596)	(71,596)
Capital Contributions	-	-	-
Net cash provided by capital and related financing activities	<u>-</u>	<u>(71,596)</u>	<u>(71,596)</u>
Net increase in cash and short-term investments	42,402	(761,430)	(719,028)
Cash and short-term investments - beginning of the year	<u>11,410,191</u>	<u>1,493,351</u>	<u>12,903,542</u>
Cash and short-term investments - end of the year	<u>\$ 11,452,593</u>	<u>\$ 731,921</u>	<u>\$ 12,184,514</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (used in) Operating Activities			
Operating income (loss)	\$ (3,745,231)	\$ (52,864)	\$ (3,798,095)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	-	258,678	258,678
Change in assets, deferred outflows and liabilities and deferred inflows:			
Receivables, net	5,555,806	(160,814)	5,394,992
Vouchers payable	(1,856,066)	(706,456)	(2,562,522)
Accrued payroll	-	(4,635)	(4,635)
Net pension liability	-	26,026	26,026
Unearned revenue	87,893		87,893
Other liabilities	-	634	634
Net cash provided by (used in) operating activities	<u>\$ 42,402</u>	<u>\$ (639,431)</u>	<u>\$ (597,029)</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, 2017
(unaudited)

Exhibit H-1

	Other	Commonwealth of Virginia	Total
ASSETS			
Cash and short-term investments	\$ 6,219,033	\$ 7,869	\$ 6,226,902
Receivables, net of allowance for uncollectible accounts	-	-	-
Other	107,306	-	107,306
Total assets	<u>\$ 6,326,339</u>	<u>\$ 7,869</u>	<u>\$ 6,334,208</u>
LIABILITIES			
Vouchers payable	\$ 5,170	-	\$ 5,170
Due to governmental funds	-	-	-
Due to other agencies	6,321,169	7,869	6,329,038
Total liabilities	<u>\$ 6,326,339</u>	<u>\$ 7,869</u>	<u>\$ 6,334,208</u>

CITY OF NORFOLK, VIRGINIA

Exhibit H-2

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

For the Year Ended June 30, 2017
(unaudited)

	Other		
	Balance June 30, 2016	Additions	Deductions
ASSETS			
Cash and short-term investments	\$ 5,389,044	\$ 6,177,323	\$ 5,347,334
Other receivables	135,842	109,605	138,141
Total assets	<u>\$ 5,524,886</u>	<u>\$ 6,286,928</u>	<u>\$ 5,485,475</u>
LIABILITIES			
Vouchers payable	\$ 401,616	\$ 1,448,070	\$ 1,844,516
Due to governmental funds	70,544	479,045	549,589
Due to other agencies	5,052,726	6,884,407	5,615,964
Total liabilities	<u>\$ 5,524,886</u>	<u>\$ 8,811,522</u>	<u>\$ 8,010,069</u>

	Commonwealth of Virginia		
	Balance June 30, 2016	Additions	Deductions
ASSETS			
Cash and short-term investments	\$ 4,795	\$ 6,652,690	\$ 6,649,616
Total assets	<u>\$ 4,795</u>	<u>\$ 6,652,690</u>	<u>\$ 6,649,616</u>
LIABILITIES			
Due to the Commonwealth of Virginia	\$ 4,795	\$ 6,652,690	\$ 6,649,616
Total liabilities	<u>\$ 4,795</u>	<u>\$ 6,652,690</u>	<u>\$ 6,649,616</u>

	Total		
	Balance June 30, 2016	Additions	Deductions
ASSETS			
Cash and short-term investments	\$ 5,393,839	\$ 12,830,013	\$ 11,996,950
Other receivables	135,842	109,605	138,141
Total assets	<u>\$ 5,529,681</u>	<u>\$ 12,939,618</u>	<u>\$ 12,135,091</u>
LIABILITIES			
Vouchers payable	\$ 401,616	\$ 1,448,070	\$ 1,844,516
Due to other funds	70,544	479,045	549,589
Due to other agencies	5,057,521	13,537,097	12,265,580
Total liabilities	<u>\$ 5,529,681</u>	<u>\$ 15,464,212</u>	<u>\$ 14,659,685</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, 2017

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Sub recipients	Federal Expenditures
Recipient State Agency/Grant Program				
<u>Department of Agriculture:</u>				
Direct Payments:				
Food Stamp Program - Administration	10.561			\$ 3,765,270
SNAP-ET RED & IWR	10.596	60115		30,463
Pass-through Payments:				
State Department of Agriculture:				
National School Breakfast Program	10.553			4,308,082
National School Lunch Program	10.555			10,111,361
National School Lunch Program (Commodities)	10.555			1,163,928
National VA Child & Adult Care Food Program	10.558			717,127
USDA School Nutrition Program	10.559			626,829
School Nutrition Program for Detention	10.553 & 10.555			126,686
<u>Department of Defense:</u>				
Direct Payments:				
Community Investment	12.600			5,941,421
Support for Student Achievement at Military Connected Schools	12.556			248,651
Breaking the Code	12.556			376,797
<u>Department of Housing and Urban Development:</u>				
Direct Payments:				
Community Development Block Grant	14.218		\$ 669,981	3,653,017
National Disaster Resilience Grant	14.272			821,582
ESG Administration	14.231			16,309
For Kids, Inc. Haven Family Services	14.231		4,100	4,100
ESG Homeless Prevention Program	14.231		25,106	25,106
Salvation Army	14.231		28,186	28,186
St Columbia Ecumenical	14.231		29,479	29,479
YWCA South Hampton Roads	14.231		32,478	32,478
Shelter Plus Care Program	14.238			510,366
HOME CHDO Investment Plan	14.239			143,796
HOME CHDO	14.239			27,780
Home Administration	14.239			
Office to End Homelessness	14.239			84,820
HOME NRHA Administration	14.239			143,016
Homebuyer Administration & Assistance	14.239			662,550
Beacon Light CHDO	14.239			4,446
Virginia Supportive Housing	14.239			1,366
HOME HART program	14.239			57,869
HOME - TBRA Bridge Program	14.239			-
HOME Investment Partnership	14.239			83,978
HOME-TBRA Moving On Program	14.239			111,652
Norfolk NOW Ownership Program	14.871			285,942
<u>Department of Interior:</u>				
National Fish and Wildlife Foundation	15.153			757,862
<u>Department of Justice:</u>				
Direct Payments:				
State Criminal Alien Assistance Program	16.606			19,912
Community Oriented Policing Services:				
COPS Hiring Program	16.710			-
ARRA - COPS Hiring Program	16.710			-
Justice and Mental Health Collaboration Program	16.745			-
Edward Byrne Memorial Justice Assistance Grant	16.738			214,100
Four for Life-Edward Byrne Memorial-JAG	16.738			-
Asset Forfeiture - Special Police Grant	16.922			136,659
Equity Sharing	16.922			-
Asset Forfeiture-Attorney	16.922			-
Pass-Through Payments:				
Department of Criminal Justice Services:				
Victim Witness	16.575	15-J4979DV15		588,587
Adult Community Supervision	16.523	16-T6354CC16		-
Pretrial	16.523	16-T6354CC16		-
VSTOP	16.588			58,344
Adult Drug Court Discretion Program	16.585			11,780
Edward Byrne Memorial Justice Assistance Grant	16.738	2011-DJ-BX-2956, 2013-DJ-BX-1159 2014-DJ-BX-1021, 2015-DJ-BX-1080		-
Juvenile Justice Assessment	16.523	15-B2901AD11		12,882

CITY OF NORFOLK, VIRGINIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Department of Transportation:

Pass-Through Payments:

VDOT - Traffic Management System	20.205	U000-122-241 UPC 98828	946,229
VDOT - Citywide Traffic Signal Safety	20.205	U000-122-S46 UPC 100546	1,424,014
		U000-122-S55 UPC 102524	
		U000-122-S56 UPC 102526	
VDOT - Elizabeth River Trail	20.205	NA	157,237
VDOT - Congestion Mitigation	20.205	U000-122-262 UPC 102950	65,728
VDOT - Traffic Signal Cabinet Upgrade	20.205	U000-122-238 UPC 97722	-
Ashland Circle/Lafayette River	20.205		11,399
Selective Enforcement - Alcohol	20.600	154AL-2016-56022-6222	37,899
Selective Enforcement - Speed Initiative	20.607	NA	23,994

Environmental Protection Agency:

Pass-Through Payments:

Virginia Resources Authority - Revolving Loan	66.458	C-515550E-01	3,703,582
Virginia Resources Authority - Revolving Loan	66.458	C-515574E-01	314,293

Department of Homeland Security

Direct Payments:

Bomb Squad Initiative	97.004		
FEMA - Assistance to Firefighters	97.044		1,328,897
Port Security Grant	97.056		159,605

Pass-Through Payments:

UASI for License Plate Readers	97.008		-
FEMA Elevation Projects	97.039	HMGP-4024-710-020	-
Emergency Management Performance Grant	97.042	16-K4979DV16	-
Port Security Grant	97.056	EMW-2015-PU-00459	-
Fire Rescue SHSP Grant	97.067	NA	6,703
FEMA Hazard Mitigation	97.092		50,429
FEMA Elevation Projects	97.110	VA-SRL-710-001	1,060,486
Homeland Security Grant	97.073	VDEM - FY2014	51,052
Prescription Drug Abuse Enforcement	97.073		
Buffer Zone	97.078		

Department of Education:

Direct Payments:

Department of Education:			
School Assistance in Federally-Affected Areas	84.041		2,957,363

Pass-Through Payments:

Department of Education:

PL 111-5 Consolidated Appropriations Act of 2014			
Federal Preschool Expansion Grant	84.419B	3VPI S419B150010	1,940,383
Education Consolidation and Improvement Act of 1981:			
Adult Literacy	84.002	3ABE V002A100047	286,050
Title I:			
Educationally Deprived Children- Programs Operated by LEA's	84.010	3CH1 S010A030046	15,302,795
Negligent Delinquent Children	84.010	3CH4 S010A030046	300,921
School Improvement - Title I	84.010	3S12 3S12 S010A100046	325,946
1003g School Improvement Grant (Award 2010)	84.377	3ESI S377A100047	626,189
Title III:			
Limited English	84.365	3LEP S365A10046	98,644
Title V:			
Assistance to States for Education of Handicapped			
Children:			
Special Education Flow Thru (Federal)	84.027	3FTF H027A100107	8,401,857
Handicapped Preschool Incentive Grant	84.173	3619 H173A120112	353,764
Start for Success	84.027A	3SOS PT1114-18-SC106709	10,506
Title IV-B:			
Vocational Education:			
Carl Perkins Vocational	84.048	3CPV VA048A110046	733,553
Special Projects:			
Safe Routes to Schools	20.205	3SRS	82,466
McKinney Homeless Assistance	84.196	3HLA G11810	27,555
21st Century Community Learning Center	84.287	s287c130047	132,909
Teacher & Principal Training	84.367	3TPT S367A100044	3,604,451
Fruit and Vegetable Program	10.582	3FVP PAPER	302,620
Investing in Innovations	84.411A	3IIG 12-219-317101	48,313
Mental Retardation Early Intervention	84.181	NA	240,576

Federal Emergency Management Agency

Direct Payments:

FEMA Flood Mitigation	97.039		2,400
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CITY OF NORFOLK, VIRGINIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Department of Health and Human Services:

Direct Payments:			
HIV/AIDS Grant	93.914		4,647,658
Minority AIDS Initiative	93.914		5,184,079
The Planning Council	93.914		268,351
			177,872
Pass-Through Payments:			
Projects for Assistance in Transition to Homeless (PATH)	93.150	SM016047-16	107,103
Substance Abuse and Mental Health Services Administration	93.243	SP020791	(30,426)
Mental Health and Substance Abuse Federal CABHI	93.243	TI026051	662,467
SA Federal Strategic Prevention	93.243	SP020791	173,634
Youth & Family Services Grant	93.556	0950114, 0950115	134,960
Temporary Assistance to Needy Families	93.558	0400115, 0400116	227,343
Refugee and Entrant Assistance State Administered Program	93.566	0500115, 0500116	3,875,852
Local-Income Home Energy Assistance	93.568	0600415, 0600416	15,003
Payments to States for Child Care Assistance	93.575		421,784
Child Development Care	93.596	0760115, 0760116	(1,973)
Independent Living Program - Education and Training	93.599	9160114, 9160115	18,994
Assertive Community Treatment	93.600		625,389
Adoption Incentive Program	93.603		11,481
Family Preservation	93.645	900115	49,443
Foster Care - Title IV - E	93.658	1100115, 1100116	5,077
Adoptive Assistance	93.659	1120115, 1120116	6,998
Social Services Block Grant	93.667	1000115, 1000116	2,341,735
Independent Living Initiative Program	93.674	9150115, 9150116	2,359,912
FAMIS Outreach Grants	93.767	0540115, 0540116	2,967,396
Medical Assistance Program - Administrative	93.778	NA	35,330
Mental Health Federal Block Grant	93.958	SM010053-16	154,259
Substance Abuse Federal Block Grant	93.959	STI010053-16	4,793,819
			135,589
			1,909,364
Totals			\$ 5,683,325
			\$ 107,449,885

CITY OF NORFOLK, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

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	\$ 32,579,110
Non-major governmental funds	19,938,962
Total revenues from federal government	<u>52,518,072</u>

Component Unit - School Board

Total Federal Grants Awarded	\$ 55,395,257
Other Federal Amounts not reported on SEFA	
Direct Payments:	
Total - Norfolk Public Schools	55,395,257

CSA Pool - Medicaid Adjustment

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

\$ 107,913,329

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

Enterprise - VRA Loan - Wastewater Fund	4,017,875
Federal awards not reported on the SEFA:	
Norfolk Public Schools Direct Payments	(2,306,196)
Build America Bond Interest Rate Subsidy	(2,636,530)
CSA	565,011
CSB Items reported on SEFA not in Federal Revenue	(92,936)
Police Correction and U.S. Marshall	(16,553)
Other reconciling items	5,885

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

Total federal awards

\$ 107,449,885

Reconciliation to Exhibit A-3

Revenues from federal government	\$ 52,518,072
Revenues from Commonwealth of Virginia	124,266,404
Total intergovernmental revenue	<u>\$ 176,784,476</u>

CITY OF NORFOLK, VIRGINIA
CITY OF NORFOLK, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

4. Clusters

Clustered programs for the year ended June 30, 2017 were as follows:

Grant Program / Cluster	CFDA Number	Federal Expenditures
National School Breakfast Program	10.553	\$ 4,308,082
National School Lunch Program	10.555	10,111,361
National School Lunch Program (Commodities)	10.555	1,163,928
USDA School Nutrition Program	10.559	626,829
Total Child Nutrition Cluster		\$ 16,210,200
Community Development Block Grant	14.218	\$ 3,653,017
Total CDBG Entitlement Grants Cluster		\$ 3,653,017
ESG Administration	14.231	\$ 16,309
For Kids, Inc. - Haven Family Services	14.231	4,100
ESG Homeless Prevention Program	14.231	25,106
YWCA South Hampton Roads	14.231	32,478
ESG Outreach Program	14.231	-
ESG Rapid Re-Housing Program	14.231	-
ESG Tenant Based Rental Assistance	14.231	-
Salvation Army	14.231	28,186
ESG-Neighborhood Development	14.231	-
Virginia Supportive Housing	14.231	-
St. Columbia Ecumenical	14.231	29,479
Total ESG Cluster		\$ 135,658
HOME CHDO	14.239	\$ 27,780
HOME CHDO Investment Plan	14.239	143,796
Office to End Homelessness	14.239	84,820
HOME NRHA Administration	14.239	143,016
Homebuyer Administration & Assistance	14.239	662,550
Beacon Light CKDO	14.239	4,446
Virginia Supportive Housing	14.239	1,366
HOME HART Program	14.239	57,869
HOME-TBRA Bridge Program	14.239	-
HOME-TBRA Moving On Program	14.239	111,652
HOME Investment Partnership	14.239	83,978
Norfolk NOW Ownership Program	14.871	285,942
Shelter Plus Care Program	14.238	510,366
SAMSHA-CABHI-Road to Home Grant	93.243	-
Total Home Cluster		\$ 2,117,581
VDOT - Traffic Management System	20.205	\$ 946,229
VDOT - Citywide Traffic Signal Safety	20.205	1,424,014
VDOT - Elizabeth River Trail	20.205	157,237
VDOT - Congestion Mitigation	20.205	65,728
VDOT - Traffic Signal Cabinet and Upgrade	20.205	-
Total Highway Planning and Construction Cluster		\$ 2,593,208
Selective Enforcement - Speed	20.600	\$ 37,899
Highway Safety Project	20.607	23,994
Total Highway Safety Cluster		\$ 61,893

CITY OF NORFOLK, VIRGINIA
CITY OF NORFOLK, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

Clusters (continued):

<u>Grant Program / Cluster</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Virginia Resources Authority-Revolving Fund	66.458	\$ 4,017,875
Total Clean Water State Revolving Fund		\$ 4,017,875
Educationally Deprived Children - Programs Operated by LEA's	84.010	\$ 15,302,795
Negligent Delinquent Children	84.010	300,921
School Improvement - Title I	84.010	325,946
Total Title I, Part A Cluster		\$ 15,929,662
Special Education Flow Thru	84.027	\$ 8,401,857
Handicapped Preschool Incentive Grant	84.173	353,764
Start of Success	84.027A	10,506
Total Special Education Cluster		\$ 8,766,127
Temporary Assistance to Needy Families	93.558	\$ 3,875,852
Total TANF Cluster		\$ 3,875,852
Child Development Care	93.596	\$ 625,389
Total CDCF Cluster		\$ 625,389
Medical Assistance Program	93.778	\$ 4,793,819
Total Medicaid Cluster		\$ 4,793,819

CITY OF NORFOLK, VIRGINIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

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 2017 are as follows:

Loan number	June 30, 2016 VRA Loan Balances	Disbursements Made During FY 2017	Total Loan Amount Disbursed	Total Amount Available to be Drawn	June 30, 2017 Outstanding Loan Balances
C-515550-01	\$ 29,679	\$ 3,703,582	\$ 3,733,261	\$ 2,266,739	\$ 3,733,261
C-515574-01	\$ -	\$ 314,293	\$ 314,293	\$ 6,185,707	\$ 314,293
TOTALS	\$ 29,679	\$ 4,017,875	\$ 4,047,554	\$ 8,452,446	\$ 4,047,554

6. Indirect Cost Rate

For fiscal year 2017, 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 costs 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, 2017**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Use of money and property	\$ 565	\$ -	\$ (565)
Charges for services	1,730,400	1,232,549	(497,851)
Intergovernmental federal	-	4,474	4,474
Miscellaneous	19,000	6,530	(12,470)
Transfer in	-	150,000	150,000
Total revenue	<u>\$ 1,749,965</u>	<u>\$ 1,393,553</u>	<u>\$ (356,412)</u>
Expenditures and transfers:			
Towing and recovery	\$ 1,551,001	\$ 1,211,322	\$ 339,679
Transfer out	198,964	198,877	87
Total expenditures	<u>\$ 1,749,965</u>	<u>\$ 1,410,199</u>	<u>\$ 339,766</u>

**Schedule of Revenues and Expenditures - Budget and Actual
Storm Water Utility Special Revenue Fund
For the Year Ending June 30, 2017**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Use of money and property	\$ 565	\$ 590	\$ 25
Charges for services	16,410,285	15,802,425	(607,860)
Miscellaneous	118,116	220,510	102,394
Intergovernmental - federal	-	88,430	88,430
Total revenue	<u>\$ 16,528,966</u>	<u>\$ 16,111,955</u>	<u>\$ (417,011)</u>
Expenditures and transfers:			
Public works	\$ 12,026,707	\$ 11,197,700	\$ 829,007
Transfer out	4,502,259	4,505,283	(3,024)
Total expenditures	<u>\$ 16,528,966</u>	<u>\$ 15,702,983</u>	<u>\$ 825,983</u>

**Schedule of Revenues and Expenditures - Budget and Actual
Golf Special Revenue Fund
For the Year Ending June 30, 2017**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Charges for services	\$ 15,000	\$ 37,269	\$ 22,269
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, 2017**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Other local taxes	\$ 3,571,596	\$ 3,571,596	\$ -
Charges for services	4,500	\$ 2,617	(1,883)
Recovered cost	1,392,000	1,653,041	261,041
Federal aid	113,617	-	(113,617)
Transfer in	1,106,921	673,797	(433,124)
Total revenue	\$ 6,188,634	\$ 5,901,051	\$ (287,583)
Expenditures:			
Operations	\$ 6,188,634	\$ 5,973,118	\$ 215,516
Total expenditures	\$ 6,188,634	\$ 5,973,118	\$ 215,516

**Schedule of Revenues and Expenditures - Budget and Actual
Cemeteries Special Revenue Fund
For the Year Ending June 30, 2017**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Charges for services	\$ 1,287,009	\$ 1,314,201	\$ 27,192
Recovered cost	300,000	300,000	-
Transfer in	439,088	238,328	(200,760)
Rollover from last year	67,119	67,119	-
Total revenue	<u>\$ 2,093,216</u>	<u>\$ 1,919,648</u>	<u>\$ (173,568)</u>
Expenditures:			
Cemetery operations	<u>\$ 2,093,216</u>	<u>\$ 1,905,527</u>	<u>\$ 187,689</u>

**Schedule of Revenues and Expenditures - Budget and Actual
Public Amenities Special Revenue Fund
For the Year Ending June 30, 2017**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Taxes-Hotel & Restaurant	\$ 6,335,000	\$ 6,321,566	\$ (13,434)
Miscellaneous	30,000	-	30,000
Rollover from last year	2,000,000	2,000,000	-
Total revenue	<u>\$ 8,365,000</u>	<u>\$ 8,321,566</u>	<u>\$ 16,566</u>
Expenditures:			
Transfer out (CIP)	\$ 3,000,000	\$ 3,000,000	\$ -
Transfer out (Debt Service)	1,677,717	1,677,717	-
Transfer out (General Fund)	2,000,000	2,000,000	-
All purpose	1,687,283	6,758,092	(5,070,809)
Total expenditures	<u>\$ 8,365,000</u>	<u>\$ 13,435,809</u>	<u>\$ (5,070,809)</u>

**Schedule of Revenues and Expenditures - Budget and Actual
Tax Increment Financing Special Revenue Fund
For the Year Ending June 30, 2017**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Taxes-real property	\$ 5,384,000	\$ 5,384,000	\$ -
Rollover from last year	119,639	119,639	-
Total revenue	<u>\$ 5,503,639</u>	<u>\$ 5,503,639</u>	<u>\$ -</u>
Expenditures:			
Transfer out (Debt Service)	\$ 1,518,048	\$ 1,518,048	\$ -
Transfer out (General Fund)	3,985,591	3,985,591	-
Total expenditures	<u>\$ 5,503,639</u>	<u>\$ 5,503,639</u>	<u>\$ -</u>

**Schedule of Revenues and Expenditures - Budget and Actual
Community Development Fund
For the Year Ending June 30, 2017**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Charges for services	<u>\$ 4,962,151</u>	<u>\$ 4,034,137</u>	<u>\$ (928,014)</u>
Expenditures:			
Operations	<u>\$ 4,962,151</u>	<u>\$ 4,400,683</u>	<u>\$ 561,468</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, 2017**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Use of money and property	\$ 22,000	\$ 9,282	\$ (12,718)
Charges for services	22,076,000	20,948,071	(1,127,929)
Miscellaneous	577,679	28,522	(549,157)
Total revenue	<u>\$ 22,675,679</u>	<u>\$ 20,985,875</u>	<u>\$ (1,689,804)</u>
Expenditures and transfers:			
Public works	\$ 21,035,596	\$ 20,681,749	\$ 353,847
Transfer out	1,640,083	1,511,098	128,985
Total expenditures	<u>\$ 22,675,679</u>	<u>\$ 22,192,847</u>	<u>\$ 482,832</u>

Schedule of Revenues and Expenditures - Budget and Actual
Grants Funds
For the Year Ending June 30, 2017

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Fines and forfeitures	\$ -	\$ 595	\$ 595
Use of money and property	-	124	124
Charges for services	-	304,953	304,953
Intergovernmental			
Federal	-	15,371,459	15,371,459
State	-	14,401,085	14,401,085
Operating Transfers	-	4,650,560	4,650,560
Miscellaneous	-	2,212,809	2,212,809
Total revenue	<u>\$ -</u>	<u>\$ 36,941,585</u>	<u>\$ 36,941,585</u>
Expenditures and transfers:			
General government	\$ -	\$ 2,030,597	\$ (2,030,597)
Judicial administration	-	3,170,032	(3,170,032)
Public safety	-	4,887,559	(4,887,559)
Public works	-	5,051,590	(5,051,590)
Health and public assistance	-	16,215,335	(16,215,335)
Cultural and recreation	-	364,631	(364,631)
Community development	-	1,516,400	(1,516,400)
Total expenditures	<u>\$ -</u>	<u>\$ 33,236,144</u>	<u>\$ (33,236,144)</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, 2017**

	<u>Budget</u>	<u>Actual Budgetary Basis</u>	<u>Positive (Negative) Variance</u>
Revenues:			
Charges for services	\$ 11,310,068	\$ 11,111,631	\$ (198,437)
Miscellaneous & capital contributions	223,365	36,150	(187,215)
Total revenue	<u>\$ 11,533,433</u>	<u>\$ 11,147,781</u>	<u>\$ (385,652)</u>
Expenditures:			
Fleet	<u>\$ 11,533,433</u>	<u>\$ 11,200,645</u>	<u>\$ 332,788</u>

**Schedule of Revenues and Expenditures - Budget and Actual
Healthcare Management Internal Service Fund
For the Year Ending June 30, 2017**

	<u>Budget</u>	<u>Actual Budgetary Basis</u>	<u>Positive (Negative) Variance</u>
Revenues:			
Charges for services	<u>\$ 89,943,167</u>	<u>\$ 76,701,241</u>	<u>\$ (13,241,926)</u>
Expenditures:			
Healthcare	<u>\$ 89,943,167</u>	<u>\$ 80,446,472</u>	<u>\$ 9,496,695</u>

CITY OF NORFOLK, VA
Capital Improvement Program
Schedule of Expenditures - Budget and Actual
From Inception and for the Year Ending June 30, 2017

	Expenditures				
	Project Budget	Prior Years	Current	Total	Available
Community Development					
Neighborhood Project Development	\$ 1,935,000	\$ 1,602,370	\$ 17,485.00	\$ 1,619,855	\$ 315,145
Neighborhood Conservation/Revitalization	46,390,203	44,375,435	2,737,950	47,113,385	(723,182)
Broad Creek Renaissance	34,646,668	23,411,489	1,049,378	24,460,867	10,185,801
Neighborhood Streets Improvements	1,200,000	1,187,114	199,055	1,386,169	(186,169)
Neighborhood commercial Improvements	79,748,695	77,742,205	117,907	77,860,112	1,888,583
Create Special Service Areas	744,950	493,585	-	493,585	251,365
Other	974,774	267,774	530,250	798,024	176,750
Community Development Total	165,640,290	149,079,972	4,652,025	153,731,997	11,908,293
Cultural Facilities					
Attucks Theatre Renovations	2,550,629	2,558,762	-	2,558,762	(8,133)
Scope and Chrysler Hall Improvements	22,400,279	18,447,554	590,944	19,038,498	3,361,781
Chrysler Museum Improvements	13,385,307	12,516,111	850,000	13,366,111	19,196
Civic Building Improvements	1,278,681	1,217,017	-	1,217,017	61,664
Conference Center	68,911,437	51,524,142	14,095,315	65,619,457	3,291,980
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	8,889,974	7,641,308	759,295	8,400,603	489,371
Other	7,161,339	5,000,602	203,556	5,204,158	1,957,181
Cultural Facilities Total	131,978,971	102,793,940	16,499,110	119,293,050	12,685,921
Economic Development					
Acquire/Dispose/Upgrade City Property	60,866,526	57,151,812	3,116,654	60,268,466	598,060
Nauticus/Cruise Terminal Development	38,158,610	38,114,269	-	38,114,269	44,341
Huntersville Redevelopment	1,000,000	704,423	220,000	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	16,565,758	16,065,758	-	16,065,758	500,000
Economic Development Total	124,143,995	119,584,142	3,336,654	122,920,796	1,223,199
General/Other					
Camptostella Landfill Closure	2,500,000	2,061,887	23,011	2,084,898	415,102
Beach Erosion Control	29,748,500	28,080,988	303,526	28,384,514	1,363,986
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	6,559,341	5,267,100	520,928	5,788,028	771,313
Conservation and Green Vision Implementation	5,377,373	4,266,248	611,126	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	10,494,840	4,718,560	15,213,400	12,020,447
General/Other Total	84,334,124	67,167,556	6,543,706	73,711,262	10,622,862
Public Buildings and Facilities					
Fire Station Emergency Generation Program	1,670,188	1,671,777	-	1,671,777	(1,589)
Infrastructure Improvements	4,589,028	3,380,282	706,820	4,087,102	501,926
Annual Roof Maintenance	8,771,000	8,571,000	201,413	8,772,413	(1,413)
Library Facilities - Anchor Branch	20,476,238	10,463,421	4,442,642	14,906,063	5,570,175
Police Precinct Replacement	20,328,986	20,328,986	-	20,328,986	-
Courts Replacement and Renovations	122,620,170	103,407,334	12,460,968	115,868,302	6,751,868
Jail Renovations	7,835,610	2,503,162	3,684,635	6,187,797	1,647,813
Selden Arcade Renovations	8,400,543	8,400,543	-	8,400,543	-
City Hall Building Renovations	19,746,839	13,565,182	1,670,036	15,235,218	4,511,621
Tow Yard Acquisition	337,027	337,027	-	337,027	-
Fire Facilities Replacement/Improvements	9,916,417	5,073,179	1,236,669	6,309,848	3,606,569
Police Training Facilities	656,000	656,000	-	656,000	-
Main Library Construction	69,727,997	67,543,122	(76,547)	67,466,575	2,261,422
Design /Construct Government Center Plaza	4,750,000	621,254	941,081	1,562,335	3,187,665
Other	12,982,039	12,300,429	281,934	12,582,363	399,676
Public Buildings and Facilities Total	312,808,082	258,822,698	25,549,651	284,372,349	28,435,733

CITY OF NORFOLK, VA
Capital Improvement Program
Schedule of Expenditures - Budget and Actual
From Inception and for the Year Ending June 30, 2017

	Expenditures				
	Project Budget	Prior Years	Current	Total	Available
Parks/Recreational Facilities					
Zoo Master Plan	27,084,037	27,085,163	-	27,085,163	(1,126)
Titustown Recreation Center Improvements	3,300,000	3,000,000	-	3,000,000	300,000
Botanical Gardens	2,494,413	1,998,823	-	1,998,823	495,590
Existing Recreation Center Improvements	13,622,901	12,206,681	382,059	12,588,740	1,034,161
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	1,895,416	946,791	2,842,207	2,082,540
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	3,051,354	115,272	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	118,067,495	112,345,805	1,444,122	113,789,927	4,277,568
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	34,108,313	31,679,616	-	31,679,616	2,428,697
Larchmont Elementary School	22,675,282	10,146,962	11,366,187	21,513,149	1,162,133
Ocean View Elementary School	22,181,496	8,106,381	11,881,074	19,987,455	2,194,041
South Side TEM Academy at Campostella	35,497,909	34,747,717	(747,793)	33,999,924	1,497,985
Broad Creek Elementary School	21,942,940	21,832,006	(374,222)	21,457,784	485,156
Camp Allen Elementary School	11,886,000	1,362,906	6,063,870	7,426,776	4,459,224
Other	60,559,262	30,286,682	4,336,804	34,623,486	25,935,776
Schools Total	274,377,844	203,465,569	32,525,920	235,991,489	38,386,355
Storm Water					
Storm Water Quality Improvements	11,070,000	7,928,782	1,737,629	9,666,411	1,403,589
Storm Water Facility Improvements	17,003,340	15,484,223	-	15,484,223	1,519,117
Old Dominion University Master Plan	1,788,255	1,788,255	-	1,788,255	-
Drain Line Clean & Slip Lining	995,843	995,843	-	995,843	-
Neighborhood Flood Reduction	18,712,748	15,731,094	896,448	16,627,542	2,085,206
Bulkheading Master Project	2,100,000	2,087,100	-	2,087,100	12,900
Other	7,458,575	2,311,179	(319,517)	1,991,662	5,466,913
Storm Water Total	59,128,761	46,326,476	2,314,560	48,641,036	10,487,725
Transportation					
Old Dominion University Master Plan	5,479,604	5,610,091	-	5,610,091	(130,487)
VDOT Urban Support Program	9,773,025	8,571,586	10,572	8,582,158	1,190,867
Bridge Maintenance & Repair Program	36,569,350	29,950,737	799,989	30,750,726	5,818,624
Signal & Intersection Enhancements	12,813,470	11,122,521	242,835	11,365,356	1,448,114
Citywide Soundwall Program	8,405,656	8,389,000	8,670	8,397,670	7,986
Neighborhood Streets Improvements	76,176,490	67,866,954	1,236,984	69,103,938	7,072,552
Atlantic City Development	14,356,810	13,899,027	-	13,899,027	457,783
Citywide Boat Ramp Improvements	2,388,822	1,969,536	31,035	2,000,571	388,251
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	3,827,188	19,621	3,846,809	503,191
Other	30,745,941	20,685,872	1,620,373	22,306,245	8,439,696
Transportation Total	306,070,082	242,196,400	3,970,079	246,166,479	59,903,603
Grand Total	\$ 1,576,549,644	\$ 1,301,782,558	\$ 96,835,827	\$ 1,398,618,385	\$ 177,931,259

STATISTICAL
SECTION
(Unaudited)





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CITY OF NORFOLK, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2017

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)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
					restated	restated		restated		
Governmental activities:										
Net investment in capital assets	\$ 325,173	\$ 252,128	\$ 155,954	\$ 324,576	\$ 295,206	\$ 319,550	\$ 337,937	\$ 428,380	\$ 386,641	\$ 365,913
Restricted	6,890	64,397	120,974	6,744	11,081	11,111	22,062	10,485	12,412	12,042
Unrestricted	90,917	63,013	76,365	5,347	25,832	22,593	(149,763)	(217,542)	(153,467)	(124,543)
Subtotal governmental activities net position	422,980	379,538	353,293	336,667	332,119	353,254	210,236	221,323	245,586	253,412
Business-type activities:										
Net investment in capital assets	241,203	237,307	229,693	267,107	270,913	275,195	259,371	266,206	301,340	342,470
Restricted	2,506	39,306	40,056	12,928	12,928	13,244	32,495	29,610	31,766	35,237
Unrestricted	72,387	43,921	63,316	62,458	72,063	78,631	77,120	100,988	85,668	59,766
Subtotal business-type activities net position	316,096	320,534	333,065	342,493	355,904	367,070	368,986	396,804	418,774	437,473
Primary government:										
Net investment in capital assets	566,376	489,435	385,647	591,683	566,119	594,745	597,308	694,586	687,981	708,383
Restricted	9,396	103,703	161,030	19,672	24,009	24,355	54,557	40,095	44,178	47,279
Unrestricted	163,304	106,934	139,681	67,805	97,895	101,224	(72,643)	(116,554)	(67,799)	(64,777)
Total primary government net position	\$ 739,076	\$ 700,072	\$ 686,358	\$ 679,160	\$ 688,023	\$ 720,324	\$ 579,222	\$ 618,127	\$ 664,360	\$ 690,885

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

* GASB 68 was implemented effective July 1, 2014.

(UNAUDITED)

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Program Revenue										
Governmental activities:										
Charges for services										
General government	\$ 2,169	\$ 1,800	\$ 13,156	\$ 18,630	\$ 9,441	\$ 9,489	\$ 4,149	\$ 7,152	\$ 4,642	\$ 4,822
Judicial administration	931	935	3,501	3,629	3,690	3,717	3,142	2,938	2,729	2,688
Public safety	2,307	2,797	5,627	7,942	7,424	10,154	7,613	7,563	8,307	8,364
Public works	27,156	26,999	35,451	36,890	50,597	38,320	37,769	41,821	42,341	40,322
Health and public assistance	166	134	83	82	50	5,349	5,597	5,577	6,310	6,390
Culture and recreation	6,710	6,232	9,224	10,101	9,751	10,297	9,685	8,948	10,054	9,835
Community development	760	1,539	2,259	1,479	1,807	1,236	1,960	2,557	2,370	2,511
Capital grant contributions	-	16,933	7,175	-	765	15,000	15,933	1,000	5,672	5,941
Operating grants and contributions	112,960	112,419	127,665	116,648	119,353	131,719	120,713	125,802	132,611	135,194
Total governmental activities program revenue	153,159	169,788	204,141	195,401	203,878	226,413	206,561	203,358	215,036	216,067
Business-type activities:										
Charges for services										
Water utility	74,240	74,454	78,983	80,573	78,148	76,584	79,097	82,996	80,749	84,529
Wastewater utility	24,917	23,125	23,815	24,362	24,798	25,469	27,119	28,144	27,823	29,065
Parking facilities	20,425	20,048	18,785	19,682	19,452	19,162	20,413	19,520	19,612	20,577
Capital grants and contributions	219	504	366	130	187	-	2,761	3,006	338	188
Total business-type activities program revenue	119,801	118,131	121,949	124,747	122,585	121,215	129,390	133,666	128,522	134,359
Total primary government program revenues	272,960	287,919	326,090	320,148	326,463	347,628	335,951	337,024	343,558	350,426
Expenses										
Governmental activities:										
General government	113,142	111,629	112,874	103,550	109,188	119,764	122,656	126,959	130,550	155,159
Judicial administration	48,593	52,209	52,020	49,980	51,102	51,654	55,062	49,056	51,926	55,547
Public safety	126,609	120,703	130,263	129,721	129,138	125,270	125,122	120,710	119,828	133,378
Public works	118,888	134,274	132,176	101,137	91,542	71,324	66,909	81,171	79,200	80,825
Health and public assistance	95,234	93,495	91,923	82,368	75,428	90,993	90,919	86,776	85,730	89,103
Culture and recreation	56,890	63,438	73,342	64,352	63,499	56,039	56,499	58,443	60,064	62,996
Community development	15,345	10,867	15,429	18,638	17,223	16,158	12,622	13,040	16,734	15,402
Education	101,095	104,511	101,011	104,511	104,512	109,287	109,467	117,722	114,769	114,972
Interest on long-term debt	21,457	23,788	26,014	27,931	26,822	28,249	25,187	22,060	22,950	19,326
Total government activities expenses	697,253	714,914	735,052	682,188	688,454	668,738	664,443	675,937	681,751	726,708
Business-type activities:										
Water utility	64,877	66,990	64,316	67,852	64,473	61,358	61,609	59,448	59,415	65,319
Wastewater utility	18,614	21,227	18,983	19,707	18,806	19,983	20,128	19,142	19,226	22,072
Parking facilities	21,539	19,036	20,008	22,050	20,469	20,961	23,677	20,045	20,651	21,078
Total business-type activities expenses	105,030	107,253	103,307	109,609	103,748	102,302	105,414	98,635	99,292	108,469
Total primary government expenses	802,283	822,167	838,359	791,797	772,202	771,040	769,857	774,572	781,043	835,177
Net (Expense) Revenue										
Governmental activities	(544,094)	(545,126)	(530,911)	(486,787)	(464,576)	(442,325)	(457,882)	(472,579)	(466,715)	(510,641)
Business-type activities	14,771	10,878	18,642	15,138	18,837	18,913	23,976	35,031	29,230	25,890
Total primary government net expense	\$ (529,323)	\$ (534,248)	\$ (512,269)	\$ (471,649)	\$ (445,739)	\$ (423,412)	\$ (433,906)	\$ (437,548)	\$ (437,485)	\$ (484,751)

(UNAUDITED)

City of Norfolk, Virginia
Financial Trends Information
Schedule 2-1

Changes in Net Position
Last Ten Fiscal Years
(Amounts in thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Revenue and Other Changes in Net Position										
Governmental Activities:										
Taxes:										
Real estate and personal property	\$ 240,488	\$ 260,640	\$ 256,339	\$ 255,530	\$ 245,439	\$ 246,345	\$ 254,357	\$ 263,490	\$ 263,395	\$ 271,461
Consumption utility	46,582	44,142	44,053	48,360	43,588	43,211	43,055	42,961	41,849	41,452
Sales and use	31,791	29,484	28,249	28,411	27,599	29,707	29,436	29,981	30,330	31,185
Restaurant food	28,758	28,079	27,292	24,094	30,300	30,818	31,127	32,634	34,224	34,934
Business licenses	26,343	27,692	26,009	25,849	28,667	29,301	29,889	28,640	28,935	30,557
Cigarette	7,577	7,333	7,176	7,161	8,097	7,926	7,409	7,821	7,784	7,860
Motor vehicle licenses	3,498	4,005	4,308	4,313	4,318	4,210	3,966	3,953	4,488	4,642
Other	18,025	17,192	16,528	15,698	18,665	18,124	16,618	18,280	18,424	18,909
Interest and investment earnings	5,307	2,789	892	1,065	916	563	783	164	291	249
Grants and contributions not restricted to specific programs	69,352	60,513	32,892	32,642	32,726	33,539	33,788	33,793	34,863	36,440
Miscellaneous	11,881	9,600	5,637	5,901	4,653	11,501	14,563	11,916	16,404	30,778
Gain on disposal of assets	62	-	-	-	-	1,734	-	-	-	-
Capital contributions Norfolk Public Schools	-	-	40,387	11,085	-	-	-	-	-	-
Transfers between governmental and business-type activities	10,212	10,215	13,054	10,052	10,087	10,114	10,052	10,033	10,000	10,000
Total governmental activities	499,876	501,684	502,816	470,161	455,055	467,093	475,043	483,666	490,987	518,467
Business-type activities:										
Interest and investment earnings	3,046	925	618	511	314	234	496	112	295	432
Grants and contributions not restricted to specific programs	-	-	148	557	371	1,626	219	214	149	150
Unrealized gain (loss) on investments	-	-	-	-	-	-	-	-	-	-
Miscellaneous	3,088	2,850	3,432	3,431	3,951	4,042	3,162	2,506	2,295	2,228
Gain (Loss) on disposal of assets	-	-	2,744	(157)	26	9	(88)	(2)	-	-
Transfers between governmental and business-type activities	(10,212)	(10,215)	(13,054)	(10,052)	(10,087)	(10,114)	(10,052)	(10,033)	(10,000)	(10,000)
Total business-type activities	(4,078)	(6,440)	(6,112)	(5,710)	(5,425)	(4,203)	(6,263)	(7,203)	(7,261)	(7,190)
Total primary governmental activities	495,798	495,244	496,704	464,451	449,630	462,890	468,780	476,463	483,726	511,277
Change in Net Position										
Governmental activities	(44,218)	(43,442)	(28,095)	(16,626)	(9,521)	25,485	17,161	11,087	24,272	7,826
Business-type activities	10,693	4,438	12,530	9,428	13,412	15,814	17,713	27,828	21,969	18,700
Total Primary Government changes in net position	\$ (33,525)	\$ (39,004)	\$ (15,565)	\$ (7,198)	\$ 3,891	\$ 41,299	\$ 34,874	\$ 38,915	\$ 46,241	\$ 26,526

(UNAUDITED)

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

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Fund:										
Nonspendable	\$ -	\$ -	\$ -	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ 139	\$ -
Restricted	-	-	-	395	330	300	265	2,100	3,015	165
Committed	-	-	-	1,899	3,000	3,000	3,000	4,000	5,000	8,698
Assigned	-	-	-	38,014	34,839	33,919	23,901	25,904	26,557	36,605
Unassigned	-	-	-	55,968	54,338	54,055	58,100	65,580	73,077	70,652
Reserved ⁽¹⁾	11,669	7,842	8,296	-	-	-	-	-	-	-
Unreserved ⁽¹⁾	56,302	50,784	53,840	-	-	-	-	-	-	-
Total General Fund	67,971	58,626	62,136	96,281	92,507	91,274	85,266	97,584	107,788	116,120
Capital Projects Fund:										
Nonspendable	-	-	-	-	-	-	-	-	-	-
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)
Reserved ⁽¹⁾	57,186	50,987	60,696	-	-	-	-	-	-	-
Unreserved ⁽¹⁾	64,504	25,939	86,260	-	-	-	-	-	-	-
Total Capital Projects Fund	121,690	76,926	146,956	79,348	124,774	20,976	29,465	(69,920)	(210,310)	(190,871)
All Other Governmental Funds:										
Nonspendable	-	-	-	22	23	24	-	-	-	-
Restricted	-	-	-	2,621	9,474	10,811	10,864	8,385	9,397	6,223
Committed	-	-	-	11,259	3,246	2,454	5,050	2,764	3,138	5,872
Assigned	-	-	-	9,877	13,569	20,708	22,144	17,843	26,554	20,345
Unassigned	-	-	-	-	-	-	(1,556)	(2,913)	(2,689)	(932)
Reserved ⁽¹⁾	30,716	27,049	34,634	-	-	-	-	-	-	-
Unreserved ⁽¹⁾	13,987	12,535	14,008	-	-	-	-	-	-	-
Total other governmental funds	44,703	39,584	48,642	23,779	26,312	33,997	36,502	26,079	36,400	31,508
Total fund balance, governmental funds	\$ 234,364	\$ 175,136	\$ 257,734	\$ 199,408	\$ 243,593	\$ 146,247	\$ 151,233	\$ 53,743	\$ (66,122)	\$ (43,243)

(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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue:										
General property taxes	\$ 241,290	\$ 252,003	\$ 257,055	\$ 258,004	\$ 252,917	\$ 246,359	\$ 256,979	\$ 262,433	\$ 265,943	\$ 269,816
Other local taxes	162,573	157,927	153,615	153,886	161,234	163,297	161,499	164,270	166,034	169,539
Licenses and permits	4,055	4,012	3,526	3,691	3,574	4,098	3,089	3,013	3,038	3,576
Fines and forfeitures	1,317	1,260	1,164	1,298	1,108	1,102	1,242	1,264	1,111	921
Use of money and property	10,560	8,332	6,746	7,169	6,695	6,339	6,329	9,668	7,354	7,786
Charges for services	40,159	40,345	50,540	47,955	47,859	56,077	60,040	59,983	62,709	62,315
Miscellaneous	17,923	12,911	18,080	14,850	11,643	26,178	29,133	10,142	11,325	12,080
Recovered costs ⁽¹⁾	8,622	8,952	9,503	10,723	10,312	11,396	-	-	-	-
Intergovernmental	156,862	149,774	152,619	149,489	161,572	161,148	153,762	158,840	166,686	176,784
Total revenues	643,361	635,516	652,848	647,065	656,914	676,194	672,093	669,613	684,200	702,817
Expenditures:										
Current										
General government	110,974	102,426	97,061	80,855	100,504	112,804	109,292	110,904	118,468	127,367
Judicial administration	47,331	50,347	48,726	47,535	48,233	50,920	51,673	51,360	50,513	50,767
Public safety	116,208	118,073	115,488	115,975	116,296	117,427	113,394	112,055	116,436	121,494
Public works	60,370	56,146	59,574	70,124	62,330	54,427	55,267	61,369	58,716	63,231
Health and public assistance	95,159	91,648	89,682	79,757	74,331	88,413	88,671	85,631	85,815	87,330
Culture and recreation	51,071	52,248	51,708	45,862	44,529	47,153	46,705	48,765	44,531	44,825
Community development	10,745	9,899	10,851	16,565	15,142	15,128	12,482	12,303	13,677	14,994
Education	101,095	104,511	101,011	104,511	104,512	109,287	111,854	117,722	114,769	114,972
Debt service:										
Principal retirement	40,260	48,092	46,052	50,865	57,683	50,559	48,135	49,255	46,175	50,663
Interest and other charges	20,468	23,666	23,782	29,675	27,360	27,668	28,682	26,896	26,955	27,150
Debt issuance costs	-	-	-	-	-	-	1,127	680	318	-
Capital outlay	114,007	104,892	99,210	76,534	98,892	116,580	100,709	103,113	140,093	98,492
Total expenditures	767,688	761,948	743,145	718,258	749,812	790,366	767,991	780,053	816,466	801,285
(Deficiency) of revenues (under) expenditures	(124,327)	(126,432)	(90,297)	(71,193)	(92,898)	(114,172)	(95,898)	(110,440)	(132,266)	(98,468)
Other financing sources (uses):										
Proceeds of refunding bonds	-	16,000	-	84,136	74,859	-	73,428	74,094	-	49,378
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)	145,663	55,280	156,208	2,821	109,835	-	77,930	-	-	90,094
Payment to refunded bonds escrow agent	-	(16,000)	-	(84,136)	(74,859)	-	(79,964)	(81,267)	-	(55,684)
Premium on bonds issued	5,785	1,707	3,633	505	15,311	-	17,081	7,530	-	22,586
Miscellaneous	62	-	-	-	-	-	-	-	-	-
Proceeds from sale or disposal of fixed assets	-	-	-	-	2,700	1,966	-	-	-	6,080
Operating transfers in	109,901	105,641	104,007	104,873	107,136	112,121	107,633	102,604	107,953	106,474
Operating transfers (out)	(99,653)	(95,425)	(90,953)	(95,332)	(97,899)	(102,006)	(95,224)	(92,571)	(97,953)	(96,474)
Total other financing sources (uses)	161,758	67,203	172,895	12,867	137,083	12,081	102,011	12,201	12,400	121,348
Net change in fund balances	\$ 37,431	\$ (59,229)	\$ 82,598	\$ (58,326)	\$ 44,185	\$ (102,091)	\$ 6,113	\$ (98,239)	\$ (119,866)	\$ 22,880
Debt service as a percentage of noncapital expenditures	9.13%	10.40%	9.69%	12.19%	12.27%	11.57%	11.22%	11.27%	10.27%	11.16%

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	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities:										
General government	\$ 17,707	\$ 16,042	\$ 19,736	\$ 21,795	\$ 10,466	\$ 10,833	\$ 5,077	\$ 12,739	\$ 7,798	\$ 6,725
Judicial administration	28,707	23,173	26,461	27,069	27,880	29,479	28,537	23,113	25,811	27,242
Public safety	5,244	11,036	7,459	12,335	14,217	15,980	11,116	14,226	11,662	12,606
Public works	47,407	48,156	55,542	61,552	77,436	68,326	63,124	76,359	69,609	77,639
Health and public assistance	40,567	41,695	62,585	52,280	51,654	62,657	62,224	57,059	72,181	70,931
Culture and recreation	10,359	9,148	23,976	10,330	11,573	26,284	25,837	9,947	17,301	10,020
Community development	3,168	20,538	7,532	10,040	8,538	10,266	7,626	7,498	8,255	8,360
Interest on Long-term debt	-	-	849	-	2,115	2,587	3,021	2,417	2,419	2,544
Total governmental activities	153,159	169,788	204,140	195,401	203,879	226,412	206,562	203,358	215,036	216,067
Business-type activities:										
Water utility	74,416	74,958	79,349	80,703	78,335	76,585	81,757	85,925	81,087	84,718
Wastewater utility	24,960	23,125	23,815	24,362	24,798	25,469	27,219	28,144	27,823	29,065
Parking facilities	20,425	20,048	18,785	19,682	19,452	19,162	20,414	19,596	19,612	20,576
Total business-type activities	119,801	118,131	121,949	124,747	122,585	121,216	129,390	133,665	128,522	134,359
Total primary government	\$ 272,960	\$ 287,919	\$ 326,089	\$ 320,148	\$ 326,464	\$ 347,628	\$ 335,952	\$ 337,023	\$ 343,558	\$ 350,426

(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
2008	\$ 241,290	\$ 162,573	\$ 4,055	\$ 1,317	\$ 10,650	\$ 40,159	\$ 17,923	\$ 8,622	\$ 156,862	\$ 643,451
2009	252,004	157,926	4,012	1,260	8,332	40,345	12,911	8,952	149,774	635,516
2010	257,055	153,615	3,526	1,164	6,746	50,540	18,080	9,503	152,619	652,848
2011	258,004	153,886	3,691	1,298	7,169	47,955	14,850	10,723	149,489	647,065
2012	252,917	161,234	3,575	1,108	6,694	47,859	11,643	10,312	161,572	656,914
2013	246,359	163,297	4,098	1,102	6,539	56,077	26,178	11,396	161,148	676,194
2014	256,979	161,500	3,089	1,242	6,329	60,039	29,133	NA	153,782	672,093
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
Change 2008-2017	11.8%	4.3%	-11.8%	-30.1%	-26.9%	55.2%	-32.6%	NA	12.7%	9.2%

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

Fiscal Year	Consumption Utility Taxes	Sales and Use Taxes	Restaurant Food Taxes	Business License Taxes	Cigarette Taxes	Motor Vehicle Licenses	Other	Total
2008	\$ 46,582	\$ 31,791	\$ 28,758	\$ 26,343	\$ 7,577	\$ 3,498	\$ 18,024	\$ 162,573
2009	44,142	29,484	28,078	27,692	7,333	4,005	17,192	157,926
2010	44,053	28,249	27,292	26,009	7,176	4,308	16,528	153,615
2011	43,188	28,411	28,474	25,849	7,161	4,313	16,490	153,886
2012	43,588	27,599	30,300	28,667	8,097	4,318	18,665	161,234
2013	43,211	29,707	30,818	29,301	7,926	4,209	18,124	163,296
2014	43,055	29,436	31,127	29,889	7,409	3,966	16,618	161,500
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
Change 2008-2017	-11.0%	-1.9%	21.5%	16.0%	3.7%	32.7%	4.9%	4.3%

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
2008	\$ 18,401,851	\$ 1,983,503	\$ 193,287	\$ 20,578,641	\$ 20,578,641
2009	19,397,795	1,676,811	233,703	21,308,309	21,308,309
2010	19,940,273	1,610,680	226,801	21,777,754	21,777,754
2011	19,320,642	1,832,276	230,756	21,383,674	21,383,674
2012	18,676,729	1,613,797	238,497	20,529,023	20,529,023
2013	18,319,947	1,532,337	241,023	20,093,307	20,093,307
2014	18,421,412	1,512,332	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

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>2008</u>	<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>
Property tax rate per \$100 of assessed value:										
Real property	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.15	\$ 1.15	\$ 1.15	\$ 1.15
Downtown improvement district	0.18	0.18	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
Personal property	4.25	4.25	4.25	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	1.11	1.15	1.11	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	1.25	1.23	1.19	1.19	1.21	1.22	1.22	1.22	1.24	1.23

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

As determined by the City Assessor	100%	100%	100%	96%	100%	100%	98%	100%	100%	100%
As determined by the Commonwealth's Department of Taxation	76%	93%	96%	N/A	100%	100%	99%	100%	99%	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 2008 through 2017.
3. The most recent Virginia Assessment/Sales ratio study is for 2017.
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	2008				2017			
	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	0.94%		\$ 222,285,500	1	1.14%	
Virginia Power Co.	178,290,528	1	0.97%					
ODU Real Estate Foundation					127,226,400	2	0.65%	
Verizon Virginia Inc.	131,127,740	3	0.71%					
Northern Southern	94,561,445	4	0.51%		82,733,700	3	0.43%	
Bank of America	87,462,500	5	0.48%					
SLNWC Office Company LLC					75,311,300	4	0.39%	
Norfolk Hotel Associates LLC					72,595,400	5	0.37%	
Military Circle LLC	58,001,800	8	0.32%		63,786,600	6	0.33%	
Dominion Enterprises					61,618,200	7	0.32%	
Dominion Tower LP	57,438,600	9	0.31%		57,691,600	8	0.30%	
Ford Motor Company	81,588,900	6	0.44%					
NWM Hotel LLC					57,067,200	9	0.29%	
The Next on 39th LLC					51,464,500	10	0.26%	
Cox Virginia Telecom	65,187,525	7	0.35%					
Trader Publishing Company	57,040,100	10	0.31%					
Total	<u>\$ 983,731,938</u>		<u>5.35%</u>		<u>\$ 871,780,400</u>		<u>4.49%</u>	
Total Assessed Value	\$ 18,401,851,069				\$ 19,433,889,000			

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⁾
2008	\$ 258,016	\$ 243,307	\$ 220,253	90.52%	\$ 23,029	\$ 243,282	99.99%
2009	261,535	251,913	233,725	92.78%	18,139	251,864	99.98%
2010	258,544	257,752	239,192	92.80%	18,514	257,706	99.98%
2011	254,756	253,443	235,518	92.93%	17,882	253,400	99.98%
2012	247,528	247,526	233,396	94.29%	12,535	245,931	99.36%
2013	244,309	243,910	229,872	94.24%	12,306	242,178	99.29%
2014	254,008	254,852	240,481	94.36%	12,320	252,801	99.20%
2015	256,040	259,709	245,803	94.65%	11,479	257,282	99.07%
2016	264,043	266,198	251,933	94.64%	10,023	261,956	98.41%
2017	268,718	268,718	255,712	95.16%	-	255,712	95.16%

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, 2017, were \$281,583,000 of which \$25,871,000 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							
2008	\$ 590,712	\$ 2,000	\$ -	\$ 592,712	\$ 2,439	7.32%	0.71
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%	0.53
2014	718,937	-	-	718,937	2,918	7.82%	0.49
2015	665,809	1,000	-	666,809	2,698	7.06%	0.33
2016	611,876	175,289	-	787,165	3,186	N/A	0.28
2017	664,941	189,803	-	854,744	N/A	N/A	0.26
Business-Type Activities							
2008	\$ 125,363	\$ -	\$ 413,213	\$ 538,576	\$ 2,217	6.32%	0.59
2009	159,902	-	410,377	570,279	2,338	6.85%	0.56
2010	201,701	-	403,485	605,186	2,492	7.06%	0.55
2011	189,782	-	445,687	635,469	2,606	7.10%	0.54
2012	193,729	-	439,410	633,139	2,576	6.63%	0.56
2013	184,119	-	486,832	670,951	2,723	6.99%	0.55
2014	259,717	-	410,401	670,118	2,720	7.29%	0.55
2015	247,490	-	443,911	691,401	2,797	7.32%	0.57
2016	236,084	16,711	436,720	689,515	2,791	N/A	0.58
2017	258,922	10,089	424,459	693,470	N/A	N/A	0.57
Total Primary Governmental Activities							
2008	\$ 716,075	\$ 2,000	\$ 413,213	\$ 1,131,288	\$ 4,656	13.28%	0.68
2009	747,645	1,000	410,377	1,159,022	4,751	13.92%	0.64
2010	901,449	1,812	403,485	1,306,746	5,382	15.25%	0.54
2011	841,537	1,208	445,687	1,288,432	5,283	14.40%	0.53
2012	911,136	-	439,410	1,350,546	5,494	14.15%	0.50
2013	849,028	-	486,832	1,335,860	5,422	13.91%	0.51
2014	978,654	-	410,401	1,389,055	5,638	15.11%	0.52
2015	913,299	1,000	443,911	1,358,210	5,495	14.39%	0.53
2016	847,960	192,000	436,720	1,476,680	5,976	N/A	0.49
2017	923,863	199,892	424,459	1,548,214	N/A	N/A	0.47

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
2008	\$ 716,075	\$ 125,363	\$ 590,712	\$ 20,578,641	242,983	2.87%	\$ 2,947
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	N/A	3.90%	N/A

Notes:

1. Assessed value of taxable property is detailed in Revenue Capacity Schedule 1.
2. The source of 2008 through 2009 and 2011 through 2016 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, 2017

Jurisdiction	Gross Bonded Debt Outstanding (in thousands)	% Applicable to Government	\$ Applicable to Government (in thousands)
Direct:			
City of Norfolk	\$ 1,123,755	100%	\$ 1,123,755

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, 2017

	<u>2008</u>	<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>
Total assessed value of taxed real property	\$ 18,401,851,069	\$ 19,395,789,387	\$ 19,940,273,451	\$ 19,320,643,495	\$ 18,676,730,533	\$ 18,319,948,478	\$ 18,421,412,121	\$ 18,734,201,726	\$ 19,106,737,956	\$ 19,433,889,018
Debt Limit -10% of total assessed valuation	1,840,185,107	1,939,578,939	1,994,027,345	1,932,064,350	1,867,673,053	1,831,994,848	1,842,141,212	1,873,420,173	1,910,673,796	\$ 1,943,388,902
Net debt applicable to debt limitation	697,450,234	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
Legal Debt Margin	\$ 1,142,734,873	\$ 1,201,405,739	\$ 1,104,470,669	\$ 1,102,442,422	\$ 990,612,622	\$ 1,013,926,798	\$ 929,440,869	\$ 959,120,794	\$ 922,291,955	\$ 877,405,167
Net Debt percentage of debt limitation	37.90%	38.06%	44.61%	42.94%	46.96%	44.65%	49.55%	48.80%	51.73%	54.85%

(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	
2008	\$ 78,730,024	\$ 37,026,528	\$ 41,703,496	\$ 7,665,000	\$ 14,022,200	\$ 21,687,200	1.92
2009	78,020,552	38,182,373	39,838,179	8,050,000	16,411,343	24,461,343	1.63
2010	82,470,020	34,567,741	47,902,279	9,420,000	15,929,680	25,349,680	1.89
2011	83,737,444	37,068,753	46,668,691	9,875,000	16,527,844	26,402,844	1.77
2012	81,295,219	34,667,524	46,627,695	11,285,000	11,184,363	22,469,363	2.08
2013	80,091,220	34,810,702	45,280,518	7,000,000	14,700,777	21,700,777	2.09
2014	82,078,002	34,466,877	47,611,125	7,250,000	15,630,219	22,880,219	2.08
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

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 Seven 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

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
2008	\$ 40,259,954	\$ 5,011,098	\$ 18,661,266	\$ 235,154	\$ 64,167,472	\$ 574,581,092	11.17%
2009	47,607,092	1,755,630	22,345,114	86,970	71,794,806	584,533,217	12.28%
2010	45,496,455	1,529,811	22,898,993	4,448	69,929,707	567,371,918	12.33%
2011	49,650,794	-	28,802,303	-	78,453,097	577,669,780	13.58%
2012	55,716,041	-	26,525,905	-	82,241,946	590,849,686	13.92%
2013	50,558,810	-	27,668,004	-	78,226,814	594,180,698	13.17%
2014	48,400,297	-	28,682,414	-	77,082,711	588,506,007	13.10%
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%

Notes:

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

(UNAUDITED)

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

Year	Population	Personal Income (000's)	Per Capita Personal Income	Civilian Labor Force Estimates	% Unemployed
2007	241,248	\$	\$	99,742	4.1%
2008	241,201	8,670,457	35,940	100,847	5.3%
2009	241,725	8,692,900	36,040	98,751	8.5%
2010	242,803	8,276,010	34,237	112,449	8.8%
2011	243,985	8,380,127	34,501	112,932	8.3%
2012	245,803	8,608,415	35,342	112,848	7.6%
2013	246,392	8,928,833	36,308	112,742	7.0%
2014	246,394	8,842,338	36,066	112,175	6.4%
2015	247,189	9,122,284	37,052	111,318	5.6%
2016	247,087	9,529,615	38,676	110,644	5.2%
		9,433,045	35,940		

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 2017.
2. Personal income and per capita personal income estimates from U.S. Bureau of Economic Analysis. Data not available for 2017.
3. Unemployment rate and civilian labor force from the U.S. Bureau of Labor Statistics. Data not available for 2017.
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	
	2008	2017
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	9	7
U.S. Navy Exchange		
United States Postal Service	8	
The Wellpoint Companies		8
Bank of America	10	
Norfolk State University	7	9
Portfolio Recovery Associates		10
Total Employment	93,343	141,586

Notes:

1. The source of the City's top ten employers is the Virginia Employment Commission.
2. The data for 2017 is the quarter ended December 2016, as that is the most current data available.
3. The source of the City's total employment is the Bureau of Labor Statistics, 4th quarter 2016.
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

<u>Year</u>	Residential Construction			Non-Residential Construction	
	Building Permits	Number of Units	Estimated Value (in thousands)	Building Permits	Estimated Value (in thousands)
2007	389	491	\$ 68,476	55	\$ 81,396
2008	277	815	101,212	35	102,714
2009	209	535	35,878	38	138,131
2010	191	621	58,729	35	104,922
2011	221	479	37,298	27	40,073
2012	268	371	39,360	26	116,401
2013	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	383	831	68,693	20	91,171
2017	519	1,332	122,267	34	90,716

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									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Goods-Producing Industries:										
Construction	6.2	5.9	5.0	4.7	4.4	4.1	3.8	3.8	4.2	4.1
Manufacturing	7.9	7.1	7.1	6.8	6.5	6.8	6.7	6.1	6.3	6.0
Service-Providing Industries:										
Wholesale trade	5.1	4.7	4.3	4.1	3.9	3.7	3.5	3.5	3.5	3.5
Retail trade	14.7	14.1	12.9	12.8	12.9	12.6	12.8	12.7	12.7	12.7
Transportation and warehousing	9.4	9.6	8.8	8.8	8.8	9.0	8.8	8.8	8.8	8.6
Information	3.7	3.5	3.0	2.7	2.5	2.9	2.9	2.8	2.9	3.0
Finance and insurance	6.6	6.6	6.1	5.4	5.5	5.3	5.3	5.6	5.2	5.3
Real estate and rental and leasing	2.8	2.8	2.7	2.6	2.6	2.5	2.7	2.6	2.6	2.5
Professional and technical services	10.7	11.4	11.7	11.6	11.5	11.0	11.4	11.0	10.5	10.4
Management of companies and enterprises	2.5	2.6	2.3	2.1	2.0	2.0	1.9	1.8	1.7	1.6
Administrative, support and waste services	7.4	7.6	6.6	6.6	7.4	6.8	7.6	7.7	7.7	7.3
Educational services	15.6	15.8	16.1	16.1	15.9	16.0	16.1	15.9	15.6	15.4
Health care and social assistance	20.6	21.2	20.7	21.0	21.9	22.4	22.4	21.8	22.0	22.8
Arts, entertainment and recreation	2.4	2.5	2.3	2.2	2.3	2.3	2.3	2.3	2.2	2.3
Accommodation and food services	10.7	10.5	10.3	10.3	10.9	10.9	10.6	10.5	10.9	11.2
Public administration	12.1	13.5	14.1	13.9	14.2	14.4	12.7	12.4	18.0	18.4
Other services	4.0	3.9	3.8	3.8	4.0	4.1	4.2	4.3	4.1	4.2
Total (adjusted for rounding)	143.1	144.0	138.7	136.3	138.0	137.8	136.4	134.4	139.7	140.2

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 2007 - 2016 as calendar year. Calendar year data not available for 2017.

(UNAUDITED)

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

Function/Program	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities:										
General government	264	481	438	492	501	461	425	473	450	453
Judicial administration	18	16	14	12	10	13	12	10	10	10
Public safety										
Police	887	861	878	891	879	828	837	823	838	874
Fire	508	517	517	510	517	507	504	489	489	504
Other	-	84	83	90	90	77	76	76	74	70
Public works	346	414	440	431	427	395	388	369	383	387
Health and public assistance	598	487	485	532	534	709	697	697	715	710
Culture and recreational	569	558	509	512	501	459	456	429	442	446
Community development	95	75	113	137	142	94	96	103	128	132
Business-type activities:										
Water utility	290	268	269	289	289	266	273	265	262	259
Wastewater utility	103	99	95	103	104	99	99	95	94	92
Parking facilities	88	89	87	85	85	85	76	63	58	5
Total full-time equivalent positions	3,766	3,949	3,928	4,084	4,079	3,993	3,937	3,892	3,941	3,942

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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Police:										
Service calls	258,254	242,139	245,336	241,282	251,099	245,620	259,938	240,459	241,530	235,763
Arrests	24,050	26,583	28,069	27,930	29,080	27,073	25,850	21,404	19,364	17,938
Reports filed	31,220	32,477	31,487	30,507	28,649	28,035	26,060	26,039	27,322	27,287
Fire:										
Incidences (fires, EMS)	41,212	39,714	40,234	40,641	45,350	44,370	43,713	44,699	46,670	47,232
Highways and Streets:										
Streets resurfacing (miles)	80	66	69	67	139	53	76	25.6	41	78
Sanitation:										
Total solid waste collected and disposed (tons)	93,799	92,333	100,480	84,162	89,106	83,297	79,382	80,128	84,162	87,851
Water Utilities:										
Water delivered to water mains (gallons in thousands)	24,150,000	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
Total water consumption (gallons in thousands)	24,455,000	21,293,000	21,280,000	21,155,000	20,360,972	20,109,000	20,241,312	20,054,780	19,282,870	19,648,726
Percent of unmetered water	6.95%	7.31%	6.11%	7.25%	7.62%	6.62%	4.29%	6.85%	9.68%	10.36%
Average daily delivery (gallons in thousands)	66,200	62,900	62,100	62,494	60,217	58,994	57,938	59,000	58,320	60,060
Maximum daily pumpage (gallons in thousands)	82,000	79,000	76,400	80,200	76,310	74,640	74,890	88,970	67,610	72,220
Minimum daily pumpage (gallons in thousands)	52,200	52,000	52,200	52,350	50,070	49,890	48,030	51,110	51,010	48,120

(UNAUDITED)

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

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
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	9	8	8	8	8	8	7	8	8
Elementary (K - 8 & Pre K - 8)	35	35	35	35	34	33	33	33	33	33
Other educational facilities	11	9	5	5	6	6	6	7	10	10
Libraries	11	11	11	11	11	11	11	11	11	11
Public Recreation:										
Parks:										
Acreage	586	587	587	587	587	587	587	587	630	630
Regional parks	1	2	2	2	2	2	2	2	2	2
Neighborhood parks	85	71	71	71	71	71	71	71	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	123	100	101	101	101	102	105	106	106	106
Hiking trails (miles)	2	2	2	2	2	2	2	2	5	5
Recreation:										
Acreage	868	954	957	957	957	957	957	957	981	981
Recreational and senior centers	19	25	30	30	30	30	30	30	30	30
Swimming pools	8	6	6	6	6	6	6	6	6	6
Tennis courts	134	148	148	148	142	142	142	142	142	142
Baseball/softball diamonds	99	86	86	86	86	86	86	86	86	86
Football/soccer fields	65	49	49	49	49	49	49	49	49	49
Field hockey	5	3	3	3	3	3	3	3	3	3
Basketball courts	179	204	203	203	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	3	2	2	2
Public Services:										
Transportation and Engineering:										
Streets (lane miles)	2,210	2,193	2,188	2,188	2,189	2,174	2,175	2,166	2,195	2,213
Sidewalks (miles)	968	968	968	968	968	968	887	887	902	902
Bridges	49	49	50	50	50	50	50	52	52	53
Signalized intersections	287	284	301	304	305	304	311	312	312	313
Street lights	30,583	30,653	30,717	31,277	31,132	31,138	31,138	31,269	31,289	32,081
Utilities:										
Water fund capital assets (in thousands)	\$ 436,488	\$ 437,973	\$ 442,304	\$ 448,407	\$ 470,466	\$ 480,999	\$ 487,577	\$ 503,659	\$ 532,089	\$ 559,115
Wastewater fund capital assets (in thousands)	163,068	177,928	183,974	198,842	214,308	229,891	238,931	249,210	260,188	265,241
Total utilities assets (in thousands)	\$ 599,556	\$ 615,901	\$ 626,278	\$ 647,842	\$ 684,774	\$ 710,094	\$ 726,479	\$ 752,869	\$ 792,277	\$ 792,277
Water customer accounts	65,549	64,433	66,140	64,289	64,440	64,654	64,856	65,687	65,426	65,673
Miles of water main in the system	829	832	835	838	824	826	828	828	821	822
Convention Center:										
Meeting rooms	8	8	8	8	8	8	8	8	8	8
Meeting/ballroom space/exhibit (square feet)	68,130	68,130	68,130	68,130	68,130	68,130	68,130	68,130	68,130	118,879
Parking Facilities:										
Parking lots/garages	23	23	26	25	24	24	24	24	25	27
Parking meters	669	614	584	584	756	738	752	676	643	643
Storm Water Management:										
Miles of storm sewers	357	357	357	357	357	366	386	386	404	385

(UNAUDITED)
City of Norfolk, Virginia
Operating Information
Schedule 4
Water System Statistics
As of June 30, 2017

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

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	35,287,824	5,769,377	6.12
2017	36,212,701	5,716,954	6.33

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	23,730,664	11,263,480	2.11
2017	24,721,565	11,479,371	2.15

**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	10,355,614	1,530,378	6.77
2017	11,709,968	1,671,696	7.00

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	4,717,964	719,635	6.56
2017	5,100,111	780,704	6.53

⁽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, 2016 - June 30, 2017

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, 2017

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	247,189	citizens
Total wastewater pumping stations	134	pump stations
Miles of gravity wastewater mains	685	miles
Miles of wastewater force mains	55	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	414,029
4	Old Dominion University	145,440
2	Sentara Norfolk General	133,148
3	BAE Systems	115,314
5	Norfolk State University	84,293

Operating Income

	Fiscal Year 2016	Fiscal Year 2017
Total Operating Revenues	\$ 28,014,182	\$ 29,240,091
Total Operating Expenses	17,200,413	19,452,987
Total Operating Income	<u>\$ 10,813,769</u>	<u>\$ 9,787,104</u>

(UNAUDITED)
City of Norfolk, Virginia
Operating Information
Schedule 6
Parking System Statistics
As of June 30, 2017

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

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

Short-term Parking Rates at the MacArthur Center Garages

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

Special Event Rates

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

Metered Parking Rates

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

Additional Information

1) Parking Facilities Fund Annual Budget is contained in the City of Norfolk Approved Operating Budget.
July 1, 2016 - June 30, 2017
July 1, 2017 - June 30, 2018

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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440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable Members of the City Council
City of 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, and the *Specifications for Audits of Counties, Cities, and Towns* (Specifications) issued by the Auditor of Public Accounts of the Commonwealth of Virginia the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norfolk, Virginia (the City), as of and for the year ended June 30, 2017, 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 21, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency as detailed by finding 2017-001.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing*



The Honorable Members of the City Council
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Standards. However, the results of our tests disclosed instances of noncompliance or other matters that are required to be reported under the Specifications and which are described in the accompanying schedule of findings and questioned costs as items 2017-005 and 2017-006.

The City's Responses to the 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 responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

KPMG LLP

Norfolk, Virginia
December 21, 2017



KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Honorable Members of City Council
City of Norfolk, Virginia

Report on Compliance for Each Major Federal Program

We have audited the City of Norfolk's (the City) 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, 2017. 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, 2017.

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 2017-002 through 2017-004. Our opinion on each major federal program is not modified with respect to these matters.



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 responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-002 through 2017-004, that we consider to be significant deficiencies.

The City's responses 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 responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the City as of and for the year ended June 30, 2017, and have issued our report thereon dated December 21, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records



used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

Norfolk, Virginia
December 21, 2017

(1) Summary of Auditors' Results

- (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weaknesses: **No**
 - Significant deficiencies: **Finding 2017-001**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: **No**
 - Significant deficiencies: **Findings 2017-002 through 2017-004**
- (e) Type of report issued on compliance for major programs: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Findings 2017-002 through 2017-004**
- (g) Major programs:
 - Supplemental Nutrition Assistance Program (SNAP) Cluster – various CFDA numbers
 - Child Nutrition Cluster – various CFDA numbers
 - Community Investment – CFDA 12.600
 - Supporting Effective Instruction State Grant – CFDA 84.367
 - Temporary Assistance for Needy Families (TANF) Cluster – various CFDA numbers
 - Foster Care – Title IV – CFDA 93.658
 - Social Services Block Grant – CFDA 93.667
 - Medicaid Cluster – various CFDA numbers
- (h) Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000
- (i) Auditee qualified as a low-risk auditee: No

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

Finding No. 2017-001: Payroll system change

Criteria

The City is required to have appropriate controls in place and operating effectively to ensure that changes to information systems are appropriately implemented.

Condition Found

The City implemented the Time and Labor enhancement module to the PeopleSoft system on December 24, 2016, to create consistency across departments and facilitate the City's ability to plan, track, approve, and record actual hours worked by employees. The testing of the module prior to implementation did not identify issues existing in the configuration of the new software, which resulted in payroll errors.

Cause and Effect

On December 24, 2016, the City implemented various changes to their payroll processes, including the Time and Labor enhancement module to the PeopleSoft system for the administration of time and labor. As a result of these changes, some payroll and benefit-related calculations were incorrect and employees received incorrect paychecks and retirement contributions. These errors resulted in both underpayments and overpayments to employees.

Recommendation

In order to ensure the accuracy of financial systems, the City should enhance its information technology change controls to ensure more sufficient and proper testing of new systems prior to those systems being implemented.

Views of Responsible Officials

The City agrees with this finding. While there was significant testing of the new Time and Labor enhancement module in the PeopleSoft system, there were issues encountered during the initial rollout of the new module that could have been minimized with more comprehensive testing prior to implementation or a delay in the rollout of the system. The goal of the enhancements were to increase accountability in all facets of time and absence management; increase accuracy of employee compensation; standardize all City operations into one payroll process; reduce manual processes that lead to errors and automate the process for employee leave requests. And while the project designed to remove system complexity, standardize policy, and increase accountability was successful, the rollout was complicated by City staff and project implementation team turnover, payroll system complexities across decentralized departments, the lack of a detailed system map and the lack of an established feasibility back-up plan to manage the risk. As a result of this process, the City has developed new system rollout parameters designed to improve any future enterprise systems rollouts across the City.

(3) Findings and Questioned Costs Relating to Federal Awards

Finding No. 2017-002: Special Test and Provisions – ADAPT System for SNAP

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

Supplemental Nutrition Assistance Program, CFDA No. 10.561, Program Year 2017, U.S. Department of Agriculture (USDA), Award 0050117

Recipient

City of Norfolk

Criteria

In accordance with 7 CFR Section 271.10 and ADAPT (ADP) System for SNAP special test requirements of the SNAP grant, the City is required to process and store all case file information necessary for eligibility determination of compliance within the special test criteria for the individuals applying for SNAP assistance.

Condition Found

In a sample of 40 instances of ADP System for SNAP tested, there was one instance in which pertinent information, including the notice of action sent to the participant, was not stored and maintained in the individual's case file. There was one additional instance in which the worker added an eligible child to the incorrect SNAP participant, resulting in that individual receiving ineligible payments in the amount of \$276.

Perspective and Questioned Costs

There was one instance in which an individual inappropriately received SNAP benefits. In this case, the case worker added a newborn child to the existing SNAP account for the wrong participant. As the special test for ADP System for SNAP is tested on an attribute and case basis, no dollar value is assigned to this finding.

Because the City is the administrator of these local funds and the Commonwealth of Virginia provides payments directly to the individuals, there are no questioned costs to the City in relation to this finding.

Cause and Effect

The requirement to review eligibility applications and store and maintain files used to determine eligibility was not performed and administered properly, which led to inconsistencies in the process.

Sampling Method

The sample was not intended to be, and was not, a statistically valid sample.

Repeated Finding Compared to Prior Year Audit

A similar finding was reported in the prior year's audit as finding number 2016-004.

Recommendation

The City should enhance its controls to ensure proper review and retention of pertinent information within the case file.

Views of Responsible Officials

Management agrees with this finding. Controls were put in place due to a similar audit finding last year. These controls need to be enhanced to ensure proper review and retention of pertinent information within all case files. Supervisors will continue to review case actions in addition to targeted review of case files to ensure all pertinent information is retained. The continuous quality improvement unit, Error Prevention and Training (EPaT), will conduct a review similar to our external auditors' to review case files for proper eligibility determination and retention of all pertinent information. It is the goal of the agency to utilize enhanced controls to eliminate inconsistencies in our process which could result in multiple errors.

Finding No. 2017-003: Special Test and Provisions – Penalty for Refusal to Work

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

Temporary Assistance for Needy Families, CFDA No. 93.558, Program Year 2017, U.S. Department of Health and Human Services (HHS), Award BEN-13-045-12

Recipient

City of Norfolk

Criteria

In accordance with the TANF Manual section 901.6 (A), when a participant has a VIEW sanction, suspension of TANF payments must be imposed until the participant comes into compliance. In accordance with the TANF Manual section 401.4 participants must be notified of the imposed sanction no later than by the 20th or 21st (if there are 31 days in the month) if the sanction is imposed in the same month in order to give the participant reasonable time to take an action on the imposed sanction by complying with VIEW program requirements. In accordance with the TANF Manual section 901.3 (L) the eligibility worker must process the communication form received from the VIEW worker and take an action on it in order to ensure benefits suspension in a timely manner.

Condition Found

In a sample of 65 instances of VIEW sanctions due to refusal to work, there were two instances in which a participant's VIEW sanction was not imposed appropriately and timely and resulted in TANF benefit overpayments in the amount of \$1,356. There was also one instance in which a participant's VIEW sanction was imposed a month earlier than it should have been as the communications form was processed after the cutoff date of 10 days prior to month end. In addition, there was one instance in which the case worker processed the sanction outside of the three day window after receipt from the VIEW worker.

Perspective and Questioned Costs

One individual had sanctions imposed due to noncompliance with refusal to work requirements in February 2017. An action was taken during June 2017 for the participant's SNAP case which triggered simultaneous processing of TANF benefits. This led to \$274 of erroneously approved TANF payments.

Another individual had sanctions imposed due to noncompliance with refusal to work requirements in April 2017. However, TANF benefits were erroneously restarted for the months of May through August 2017. These payments were in the amount of \$1,082.

In each of the cases discussed above, because the City is the administrator of these local funds and the Commonwealth of Virginia provides payments directly to the individuals, there are no questioned costs to the City in relation to this finding. However, the City's processes did not impose sanctions for refusal to work correctly, as such the instances listed above are considered reportable compliance findings.

In another case, there was one individual in which the sanction and the advance notice of proposed action were processed and mailed eight days prior to the sanction's effective date. Per the TANF Manual, the advance notice of proposed action must be mailed at least ten days before the effective date of the action. This individual was therefore not given timely notification of action. This is a reportable finding as the City was not in compliance with the TANF Manual's guidelines, although there were no errors in benefits paid.

There was one case in which the processing of the sanction did not occur within three days from receipt of the communication form from the VIEW worker. The TANF Manual requires sanctions to be processed and the advance notice of proposed action be sent within three days of receipt from the VIEW worker. As the form from the VIEW worker was received two days prior to the end of the month, the sanction would have been effective for the following month as the ten day rule noted above would have been effective. Therefore, there was no error in participant benefits, which were appropriately suspended the following month. This is a reportable finding as the agency was not in compliance with the TANF Manual's guidelines.

Cause and Effect

The first instance was the result of the failure by case workers to fully understand the functionality of the new VaCMS system implemented by the state in February 2017. In this system, TANF and SNAP cases are processed together even if action is taken only on one program. When the worker was taking action on SNAP, the option to continue to suspend payments for TANF was not selected which caused the payment to be made in error.

In the second instance, these payments were a result of a failure of management to select suspend future payments within VaCMS. This resulted in payments being reinstated after the initial month of sanction.

In the third and fourth instances, controls are not operating effectively to ensure that notices of advance action are sent timely. This led to non-compliance with TANF requirements for timely distribution of notices of advance action.

Sampling Method

The sample was not intended to be, and was not, a statistically valid sample.

Repeated Finding Compared to Prior Year Audit

A similar finding was reported in the prior year's audit as finding number 2016-002

Recommendation

The City should strengthen controls over its review processes regarding sanctions implementation, including both that sanctions are implemented for the correct periods and that notices are processed and sent timely.

Views of Responsible Officials

Management agrees with the finding. The TANF and VIEW workers will receive refresher training on TANF refusal to work policy. The request to sanction continues to be sent immediately by the VIEW unit to the TANF Benefits Supervisor. The benefit worker sends the Advanced Notice of Proposed Action within three working days. On the 23rd of each month, the VIEW worker checks the profile to make sure the case is discontinued or suspended. If the action was not taken, the Benefit Supervisor follows up to ensure all actions are taken before the end of the month. The Benefit Supervisor will review cases with a more precise level of detail and more often so that if an error is found, it can be corrected in a timely manner.

Finding No. 2017-004: Eligibility

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

Child Nutrition Cluster, CFDA No. 10.553, 10.555, 10.556, 10.559, Program Year 2016-2017, U.S. Department of Agriculture (USDA), 2016-2017 annual agreement

Recipient

Norfolk Public Schools

Criteria

In accordance with the eligibility requirements of the Child Nutrition Cluster, Norfolk Public Schools is required to maintain sufficient documentation and approval support for the determination of compliance with the eligibility criteria for the individuals applying for free or reduced priced meals.

Condition Found

In a sample of 40 selections for eligibility, two instances were identified in which the household size was incorrectly input into the Horizon system, causing errors in the determination for free or reduced lunch.

Perspective and Questioned Costs

For one application where the student received reduced priced lunch, the student's household size was input into Horizon as five members, while the application indicated a household size of six members. This household size would have qualified the student for free lunch instead of reduced lunch. The total reimbursement underpayment was \$99 for the fiscal year.

For one application, all four students in the household received free lunch. The student's household size was input as eight members, while the application indicated a household size of six members. Two of the students attended a Community Eligibility Provision school and therefore were eligible for free lunch, however the other two students were eligible for a reduced priced lunch based on the household size. The total reimbursement overpayment was \$102 for the fiscal year.

The total number of students whose eligibility is determined through the application process, including those students who were denied eligibility, was approximately 16.9% of the total students enrolled in the free or reduced lunch program.

The Norfolk Public School's process did not result in the appropriate decision with respect to the correct determination of free or reduced priced lunches, as such the instances listed above are considered reportable compliance findings.

Cause and Effect

The control over the application data input into the Horizon system was not operating effectively, which caused the incorrect eligibility to be determined.

Sampling Method

The sample was not intended to be, and was not, a statistically valid sample.

Repeated Finding Compared to Prior Year Audit

This is not a repeat finding from the prior year's audit.

Recommendation

Norfolk Public Schools should implement a process to ensure that the data from all applications are reviewed for accuracy.

Views of Responsible Officials

The School Board of the City of Norfolk understands the risks related to noncompliance with managing Child Nutrition eligibility. It is of utmost importance that risks related to eligibility are assessed and decisions about those potential risks are addressed in an accurate and timely manner. Norfolk Public Schools addresses those risks via the internal controls established for the eligibility application process and procedures.

It is the division's expectation that the established processes and procedures be followed. However, in the 2016-2017 school year, all of the review processes were not followed because the Virginia Department of Education (VDOE) was conducting a comprehensive evaluation required by the United States Department of Agriculture (USDA) of Norfolk Public Schools meals program. One important area of the evaluation was a review of certification and benefits issuance for free or reduced-priced meals and then linking them to Norfolk Public Schools meal counting and claiming system. Norfolk was found compliant in certification and benefit issuance and no findings were noted. While this evaluation did not result in any findings, we still should have followed our internal control processes and procedures.

We will reiterate to our staff that all internal control processes and procedures should be followed. Also, in our strive for excellence and zero errors, we will review and update our internal controls processes and procedures to require a supervisor to consistently conduct and document the review between the information on the application and that entered in the Horizon system.

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

State Finding 2017-005: Information Systems Security Controls Access Termination

Criteria

In accordance with the Auditor of Public Accounts *Specifications for Counties, Cities and Towns, Chapter 3, Section 15*, local government officials are required to terminate the access privileges of all Virginia Department of Social Services system users within three working days of employment termination.

Condition Found and Perspective

In our testwork of nineteen terminated employees, one employee's access was not terminated within the three day threshold. KPMG notes that the employee took a leave of absence but at the time of leave the system access wasn't suspended/disabled. Subsequently, the IT security officer was notified that the employee was terminated effective the date of leave. Upon this notification, the IT security officer terminated the employee's system access which was 22 days after the effective termination date; therefore, the City was not in compliance with APA Specifications.

Cause and Effect

The requirement to terminate access privileges timely after termination of employment was not performed properly. No known inappropriate access resulted from this late termination of access.

Sampling Method

The sample was not intended to be, and was not, a statistically valid sample.

Repeated Finding Compared to Prior Year Audit

A similar finding was reported in the prior year's audit as finding number 2016-006.

Recommendation

We recommend that the City implement processes to ensure that if an employee takes a leave of absence, the IT security officer is notified and the employee's access is suspended/disabled until the employee returns from the leave of absence.

Views of Responsible Officials

Management agrees with this finding and will revise policies and procedures and implement a process to handle leaves of absences. If an employee takes a leave of absence and the request is administered by Human Resources, the IT security officer will be notified and the employee's access will be suspended/disabled until the employee returns from the leave of absence.

State Finding 2017-006: Virginia Retirement System

Criteria

In accordance with the Auditor of Public Accounts *Specifications for Counties, Cities and Towns, Chapter 3, Section 25*, the local government participating in the Virginia Retirement System should reconcile the information in the entity's payroll system to the data in the monthly contribution confirmation in myVRS Navigator each month. The employer should confirm the contributions between the first and the 10th of the following month and schedule payment immediately after confirming the snapshot. Additionally, the payment for the month must be scheduled immediately after confirming the snapshot. The payment must be received by VRS by the 10th of the month; therefore, when the employer schedules the payment it should be for at least three days prior to the 10th of the month to ensure it is received by VRS.

Condition Found and Perspective

In our sample of three months over Norfolk Public Schools, one monthly contribution payment was made after the 10th of the following month. Upon further investigation, KPMG reviewed the payment date for all twelve months and noted that a total of five payments were made after the 10th of the month.

Cause and Effect

According to the APA specifications, VRS contributions from Norfolk Public Schools must be submitted within 10 days of month end. Norfolk Public Schools should enhance its process to ensure payment is made by this date.

Sampling Method

The sample was not intended to be, and was not, a statistically valid sample.

Repeated Finding Compared to Prior Year Audit

A similar finding was reported in the prior year's audit as finding number 2016-007.

Recommendation

We recommend that Norfolk Public Schools implement controls to ensure that the monthly snapshots and the corresponding VRS contribution are timely performed.

Views of Responsible Officials

Norfolk Public Schools' controls are designed to meet the timelines stated above by confirming the snapshot by the 10th of the following month and immediately scheduling payment. Inconsistencies between those regulations and myVRS Navigator do not always permit scheduling payment by the 10th of the month. The

review and confirmation of the snapshot are submitted by the 10th of the month and payment is scheduled immediately; however, the system does not allow the payment date to be earlier than three banking days after the confirmation. For example, if the snapshot was confirmed by Wednesday, November 8th, the payment could not be scheduled until three banking days after November 8th, which was Monday, November 13th.



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