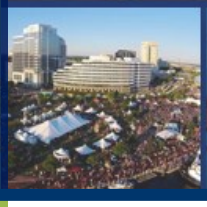
Popular Annual Financial Report

City of Norfolk, Virginia

For The Fiscal Year Ending

June 30, 2018

THE CITY OF NORFOLK



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City Council Members as of June 30, 2018

Mayor
Kenneth Cooper Alexander

Vice Mayor
Theresa Whibley
Ward 1

Council Member
Martin A. Thomas
Ward 2

Council Member
Mamie B. Johnson
Ward 3

Council Member
Paul R. Riddick
Ward 4

Council Member
Thomas R. Smigiel, Jr.
Ward 5

Council Member
Andria P. McClellan
Super Ward 6

Council Member
Angelia Williams Graves
Super Ward 7

City Manager
Douglas L. Smith

Dear Citizens and Council Members,

Our Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2018, was prepared by the Department of Finance to provide readers of interest an easy to understand summary of our financial activities. This report is intended to increase awareness throughout the community of the financial operations of the City. As such, this report is written in a user-friendly manner that will summarize and communicate the City's financial condition.

All of the data presented in this report is taken from the City's Comprehensive Annual Financial Report (CAFR). The financial data in the CAFR is presented in accordance with Generally Accepted Accounting Principles (GAAP). Organizations that issue a CAFR are required to be compliant with GAAP. This also helps to make their reports and records comparable with other entities, so definitions, parameters and calculations are performed and presented the same way throughout different organizations. However, when trying to give a user-friendly overview, it can be beneficial to provide condensed data that does not include all the extensive financial details and additional documentation required by GAAP. For that reason, this document is presented on a non-GAAP basis even though the original sources is the CAFR, a GAAP-compliant document.

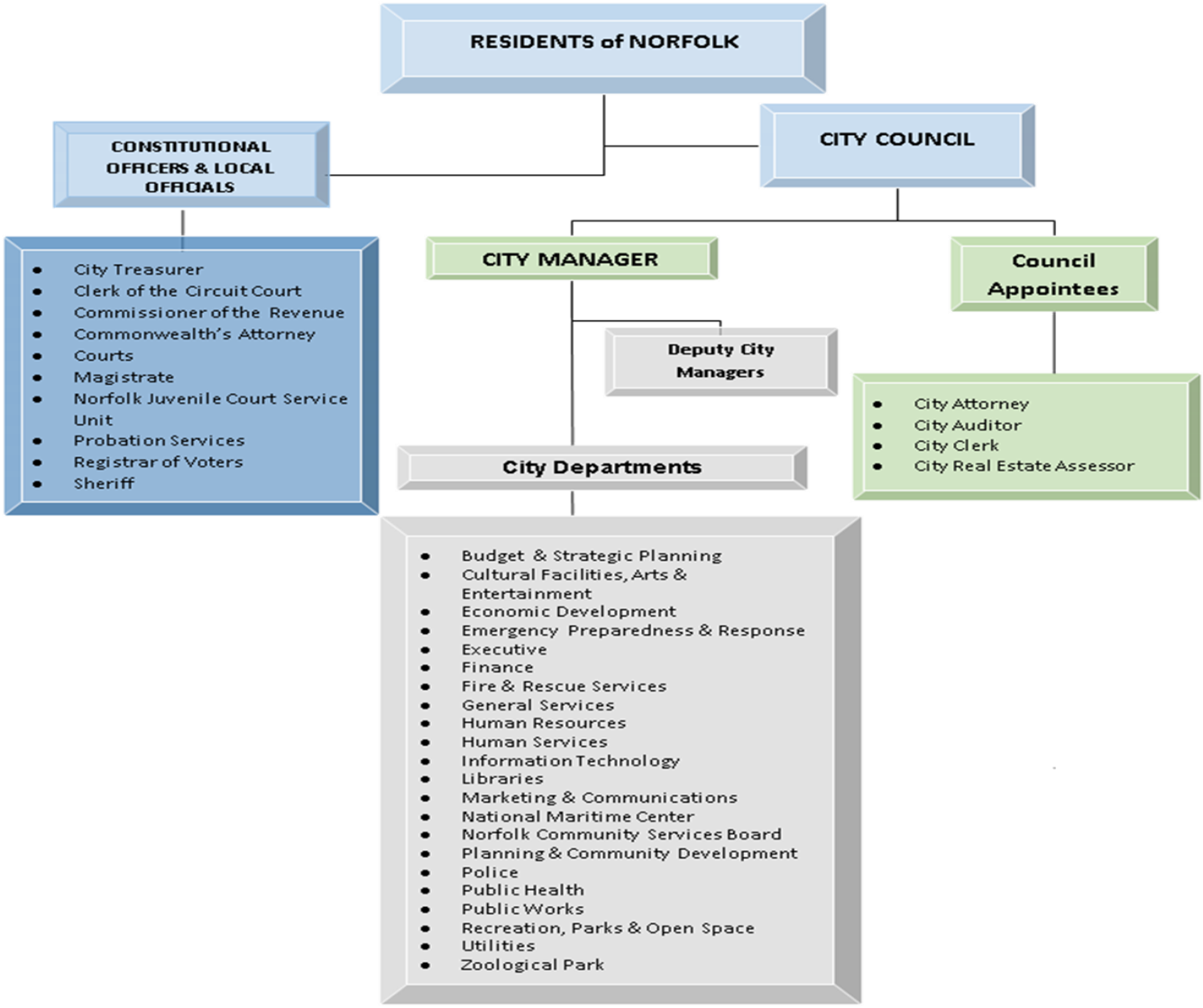
We hope you enjoy reading this report and invite you to access this report and our audited CAFR online for more detailed information. We welcome your questions, comments and suggestion regarding the information included in this report. You can contact our office at (757) 664-4346.

Sincerely,

The Department of Finance

Norfolk Government

City of Norfolk, Virginia
Organizational Chart



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.

Norfolk Education

Higher Education

Higher education plays a critical role in developing a highly skilled and competitive workforce. The City is home to several institutions of higher learning: Old Dominion University ("ODU"), Norfolk State University ("NSU"), Tidewater Community College ("TCC") and Eastern Virginia Medical School ("EVMS"). ODU is one of only 100 public research universities nationwide. NSU is Virginia's largest public historically black university and one of the largest predominately black institutions in the nation. Through a new partnership with the City, TCC will further transform Norfolk's NEON District with its newly announced plan to build the Patricia and Doug Perry Visual and Culinary Arts and Hospitality Center. The 47,000-square-foot center will be a jewel to downtown and is expected to open in summer 2019. EVMS, dedicated solely to biomedical and health education, has an economic impact on the regional economy of $1.2 billion annually. In 2018, EVMS announced a new $80 million, 11-story Education and Academic Support Building to address growth in enrollment over the past several years, completion is expected in 2020.

K-12 Education

Norfolk Public Schools (NPS) is on a mission to ensure that all students maximize their academic potential, develop skills for lifelong learning and become successful contributors to a global society. Norfolk offers innovative public school programs, which include Early Childhood Education, a comprehensive program full-day preschool classrooms ensuring 3-year-olds and 4-year-olds enter school with critical early literacy and numeracy skills. NPS has an astounding array of academically challenging programs.

School construction remains a priority as the City made a commitment to build or replace five schools. The first school replaced was Crossroads Elementary, which opened in 2012, followed by 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. The project is expected to be completed in October 2019.

Larchmont Elementary

Oceanview Elementary

Southside STEM Academy at Campostella

Norfolk By The Numbers

2nd
Norfolk is the Second Largest City in the Commonwealth

28,925
Norfolk Public Schools Population

3,895
City of Norfolk Full-Time Employees

66
Norfolk Area in Square Miles

3.7%
2018 Norfolk Unemployment Rate

$40,094
2017 Per Capita Personal Income

$195,500
2017 Median Housing Value

81
Parks

12
Libraries

106
Playgrounds

26
Community Centers

PARKNG
27
Parking Lots/Garages

WASTEWATER
133
Pump Stations

POLICE
3
Police Stations

247,070
Service Calls

FIRE
14
Fire Stations

45,039
Fire & EMS Incidences

PUBLIC WORKS
2,220
Miles of Streets

32,121
Streetlights

Where the Money Comes From

The City has six different types of funds. The General fund provides funding for the daily operations and services of the City. Internal Service, Special Revenue and Enterprise funds have specific sources of revenue and have restrictions on how the City uses them. For example, the revenues received from parking garages can only pay for parking-related items. Capital Projects and Grant funds are restricted for capital construction and grant-related activities.

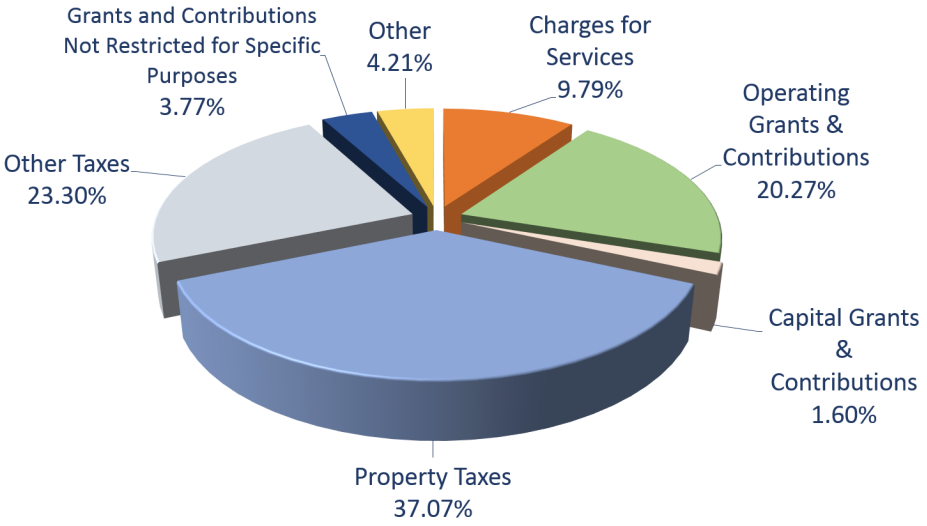
Source	Fund	Use	Example
Property taxes permits and fees	General Fund	Daily government operations and services	Libraries, Police & Fire
Fees charged to users	Enterprise Funds	Self-supporting operations financed through fees	Water, Wastewater & Parking Facilities
Revenues received in service delivery	Special Revenue	Designated for specific purposes	Cemeteries & Waste Management
Charges between City Departments and partners	Internal Service Funds	Expenditures between City departments and partners	Healthcare & Fleet Management
Debt and Cash	Capital Projects Fund (CIP)	Purchase property, construction and renovation of facilities	Construction of schools and libraries
Housing and Urban Development (HUD)	Grants (Special Revenue)	Support public services, housing and economic development	Community Development Block Grant (CDBG)

Revenues

Governmental activities captures the general revenues and continuing expenditures of primary governmental functions including public safety (police and fire), public works (roads and bridges), parks, recreation, cultural affairs and general government. Revenues for fiscal year 2018 totaled $747,537,371, a more than $23 million increase from fiscal year 2017.

Governmental Activities Revenue	Fiscal Year	
Program Revenue	**2018**	**2017**
Charges for Services	$ 73,176,531	$ 74,932,416
Operating Grants & Contributions	151,518,592	135,193,939
Capital Grants & Contributions	11,954,157	5,941,421
General Revenue		
Property Taxes	277,131,597	271,460,824
Other Taxes	174,138,870	169,538,978
Grants and Contributions Not Restricted for Specific Purposes	28,158,027	36,440,122
Other	31,459,597	31,027,100
Total Revenues	**$ 747,537,371**	**$ 724,534,800**

Governmental Activities: Revenue by Source



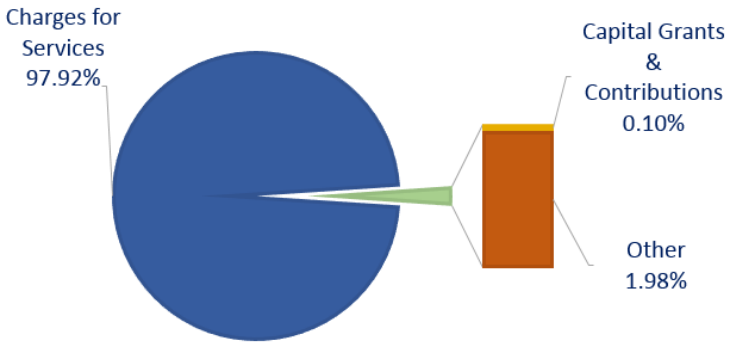
Property and other taxes comprise the vast majority of the governmental activities revenues at 60 percent of the total. Operating grants and contributions comprised the second largest source with 20 percent, followed by charges for service with 10 percent.

Revenues

Business-type activities include the operations of the City's Water Utility, Wastewater Utility and Parking Facilities. Total revenues for fiscal year 2018 were $142,255,405 with the majority from fees categorized as charges for services of $139,291,143.

Business-Type Activities Revenues

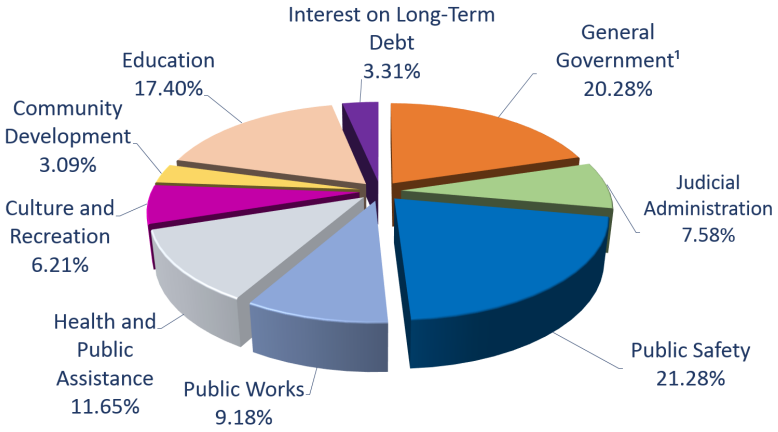
Business-Type Revenue	Fiscal Year	
Program Revenue	**2018**	**2017**
Charges for Services	$ 139,291,143	$ 134,170,141
Capital Grants & Contributions	144,186	188,476
General Revenue		
Other	2,820,076	2,809,403
Total Revenue	**$ 142,255,405**	**$ 137,168,020**



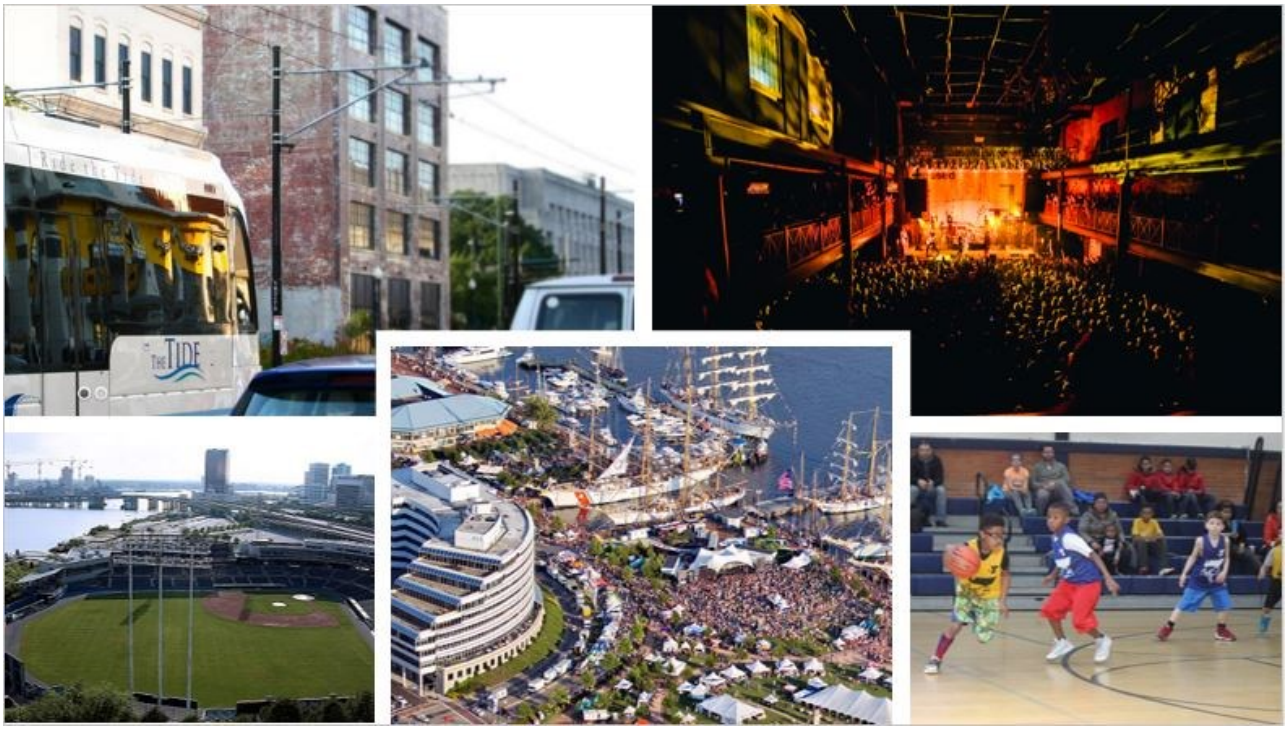
Where the Money Goes

The City's governmental activities include a variety of services with the majority of spending (39 percent) directed towards public education and public safety. Total expenses for governmental activities in fiscal year 2018 were $753,570,684 an increase of 4 percent from fiscal year 2017.

	Fiscal Year	
Governmental Activities Expense	2018	2017
General Government[1]	$ 152,832,372	$ 155,158,869
Judicial Administration	57,118,257	55,547,417
Public Safety	160,378,339	133,377,565
Public Works	69,193,737	80,825,192
Health and Public Assistance	87,826,832	89,102,636
Culture and Recreation	46,798,591	62,996,097
Community Development	23,320,454	15,402,399
Education	131,136,839	114,971,922
Interest on Long-Term Debt	24,965,263	19,326,292
Total Expenditures	**$ 753,570,684**	**$ 726,708,389**



[1] General Government expenditures are related to the administration of the City's affairs. These expenses include the cost of all elected officials, as well as the Departments of Finance and Law, among many others.

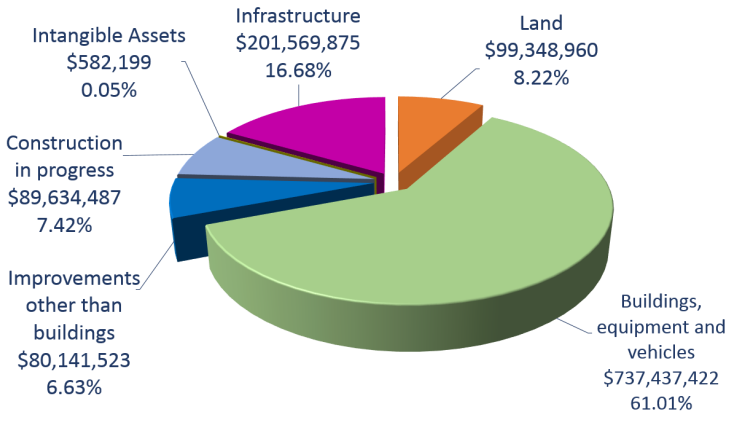


Capital Assets

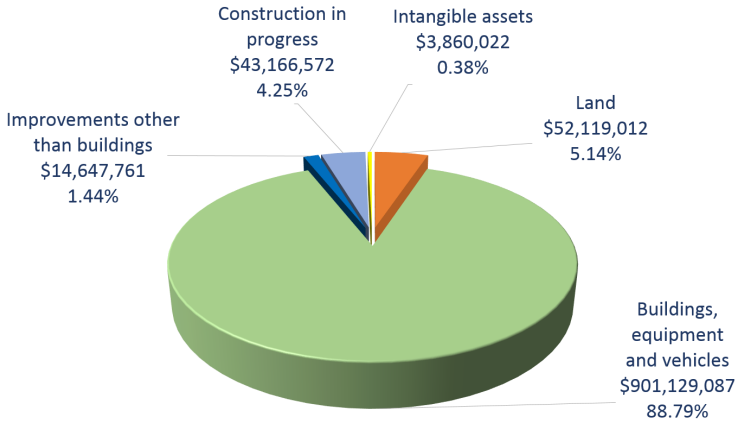
Assets can be generally defined as the items the City owns that will provide a economic benefit in the future. Specifically, the City's capital assets are owned primarily for their contribution to the quality of the community. Examples include, a parcel of land that is owned and used as a park (governmental activity), or a public parking garage that charges for permit parking (business-type activity). The City's capital assets are assigned as either assets associated with governmental activities or as assets associated with business-type activities.

The City's total capital assets at June 30, 2018, was $2,223,636,920 consisting of $1,208,714,466 in governmental assets and $1,014,922,454 in business-type assets. 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. Buildings, equipment and vehicles comprise of 61 percent of governmental type assets and 89 percent of the City's business type capital assets.

Governmental Capital Assets Total



Business-Type Capital Assets Total



Statement of Net Position

The financial balance sheet, known in accounting terms as the "Statement of Net Position," provides a picture of the health of the City at the end of a fiscal year, which can then be compared against other fiscal years. The City's fiscal year is twelve months beginning July 1 and ending until June 30.

The City owns things of value called *assets*; amounts owed to others are called *liabilities* or debt. Deferred outflows and inflows of resources are new terms for things that are similar to assets and liabilities, but that didn't meet the technical definition. The difference between assets and liabilities is called *net position*. A positive net position indicates a measure of financial stability. Net Position is the common measurement term for both the governmental and business-type activities when they are reported together. This allows all activities to be combined and shown as *government-wide* totals for the primary government. The categories of net position are listed in order of decreasing restrictions, with net investment in capital assets being generally unavailable for spending and unrestricted net position being available for use without restriction. The negative balance of $9,835,060 of unrestricted net position is due to the adoption of GASB 68 and GASB 78 and the recognition of the net pension liability to the City's employee retirement system and the Virginia retirement system.

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 $715,533,246 at the close of fiscal year 2018. This is an increase of approximately 4 percent from fiscal year 2017.

	Fiscal Year	
	2018	2017
What We Have		
Current and Other Assets	$ 479,546,951	$ 395,489,341
Capital Assets	2,223,636,920	2,208,128,921
Deferred Outflows of Resources	136,434,908	124,991,259
Total Assets and Deferred Outflows of Resources	2,839,618,779	2,728,609,521
What We Owe		
Long-Term Liabilities	1,835,867,688	1,636,975,190
Other Liabilities	267,814,601	385,915,757
Deferred Inflows of Resources	20,403,244	14,833,169
Total Liabilities and Deferred Inflows of Resources	2,124,085,533	2,037,724,116
What's Left		
Net Position		
Net Investment in Capital Assets	682,866,373	708,383,585
Restricted	42,501,933	47,278,471
Unrestricted	(9,835,060)	(64,776,651)
Total Net Position	**$ 715,533,246**	**$ 690,885,405**

Statement of Activities

The City's income statement is known as the 'Statement of Activities" and presents information showing how the government's net position changed during the fiscal year for governmental and business-type activities. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement on an accrual basis. Governmental funds such as the General fund are reported on a modified accrual basis of accounting, but are included in this statement on an accrual basis like the business-type funds.

Business-Type and Governmental Activities Totals	Fiscal Year	
Program Revenue	2018	2017
Charges for Services	$ 212,467,674	$ 209,102,557
Operating Grants & Contributions	151,518,592	135,193,939
Capital Grants & Contributions	12,098,343	6,129,897
General Revenue		
Property Taxes	277,131,597	271,460,824
Other Taxes	174,138,870	169,538,978
Grants and Contributions Not Restricted for Specific Purposes	28,158,027	36,440,122
Other	34,279,673	33,836,503
Total Revenue	$ 889,792,776	$ 861,702,820
Expenses		
Governmental Activities	$ 753,570,684	$ 726,708,389
Water Utility	61,275,639	65,319,522
Wastewater Utility	21,011,809	22,071,798
Parking Facilities	23,083,990	21,077,539
Total Expenses	858,942,122	835,177,248
Increase (decrease) in Net Position before Transfers	30,850,654	26,525,572
Transfer	-	-
Net Position Beginning of Year, Restated	684,682,592	664,359,833
Net Position End of Year	$ 715,533,246	$ 690,885,405

Debt Administration

General Obligation Debt Limit

The Commonwealth of Virginia state statues limit general obligation (G.O.) outstanding debt to 10 percent of a local government's assessed valuation for property tax purposes. The City's G.O. debt that applies to the debt limit is $1.08 billion, which is 54.3 percent of assessed valuation and is significantly less than the current calculated statutory debt limit of $1.99 billion.

Outstanding Debt

The City's debt structure includes general obligation debt that is backed by the full faith and credit of the City and revenue debt that is supported by income from operations. The City also maintains a line of credit to fund short-term capital needs prior to the issuance of long-term debt.

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

Credit Rating*

Bond Program**	Moody's Investors Service	S&P Global Ratings	Fitch Ratings
General Obligation	Aa2	AA+ (positive)	AA+
Water Revenue	Aa2	AA+	AA+

*Contact the appropriate agency for an explanation of what each rating means

**No underlying ratings for Wastewater Revenue Bonds

As a result of strong credit ratings, the City receives highly completive pricing on bond issuances.

Capital Improvement Program supports construction of the Mary D. Pretlow Anchor Branch Library.

Capital Improvement Program supports the improvement of the City's Fire Stations.

Norfolk Awards and Recognition

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017. This was the 32nd consecutive year that the City received this prestigious award. This award is valid for a period of one year only. We believe that the FY 2018 CAFR continues to meet the requirements and it will be submitted to GFOA again this year.

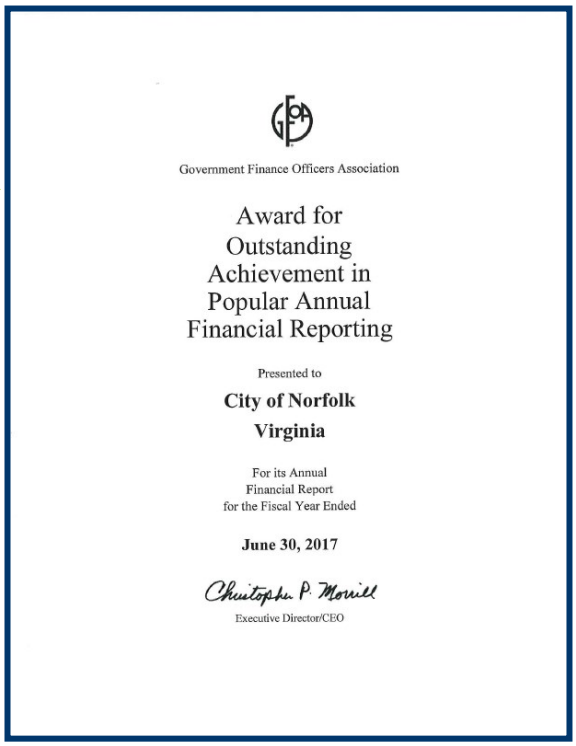
Ranked 3rd for Digital City (Population 125,000 to 249,999) Center for Digital Government's, 2017

Ranked Top 10 in Cities Where Millennials Are Moving *SmartAsset, 2018*

#19 Best Fleets in North America *National Automotive Fleet Association, 2018*

Ranked 4th Among Top Charming Cities in the South *CNN Travel, 2018*

Selected to Participate in What Works Cities Initiative *Bloomberg Philanthropies, 2018*



Government Finance Officers Association

Award for Outstanding Achievement in Popular Annual Financial Reporting

Presented to

City of Norfolk
Virginia

For its Annual Financial Report for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill
Executive Director/CEO

CITY EARNS 1st EVER PAFR AWARD

The GFOA awarded the City Certificate of Outstanding Achievement in Popular Annual Financial Reporting for its Popular Annual Financial Report (PAFR) for the fiscal year ending June 30, 2017. This was the City's 1st year that the City received this prestigious award. We believe that this FY 2018 PAFR continues to meet the requirements and it will be submitted to GFOA again this year.

Glossary

The following terms are used in this report and are defined below.

Accrual basis - revenues are recorded when earned and expenses are recorded when a liability is incurred, not when the cash is paid.

Assets - what the City owns.

Business-type activities - private sector-type operations where fees for services typically covers all or most of the cost of operations, including depreciation.

Capital Assets - items such as City land, construction in progress, equipment, infrastructure and buildings and improvements not of depreciation.

CIP - Capital Improvement Project.

Deferred inflows - an acquisition of a net asset that is applicable to a future reporting period.

Deferred outflows - a consumption of net asset that is applicable to a future reporting period.

Governmental activities - activities generally finances through taxes and intergovernmental revenues. Includes primary governmental functions like public safety, public works, parks and recreation and general government.

Liabilities - what the City owes.

Modified accrual basis of accounting - method under which revenues are recognized in the period they become available and measurable, and expenditures are recognized in the period the associated liability is incurred.

Net position - difference between assets and liabilities. It is the net worth of the City.

Restricted - funds that are not available for use because they have been set aside for a specific purpose or project.

Unrestricted - one-time funds available to use for operations.

About this Report

Although this report is largely based on the City's 2018 Comprehensive Annual Financial Report, this report is not prepared in accordance with generally accepted accounting principles ("GAAP"). Only the financial data for the general government is included in this report and, therefore, all of the City's discretely presented component units are excluded. Additionally, information is presented in a summarized manner and certain financial statements and note disclosures required by GAAP are omitted. A copy of this PAFR, as well as the City's audited 2018 CAFR, which is prepared in accordance with GAAP, is located at http://www.Norfolk.gov/Finance

Comments and Questions

The Department of Finance is committed to accomplishing the City Council's priorities and providing clear and transparent reporting of the City's financial activities. We hope this report has been helpful in providing a brief overview of the City and its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to:

City of Norfolk, Department of Finance

810 Union Street, Suite 600

Norfolk VA, 23510

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♦

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Learn about City facilities and programs
See phots of current City Projects

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Recent Headlines
Upcoming Events

This Popular Annual Financial Report is a publication of the

Department of Finance

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