

Wastewater Utility Fund

An Enterprise Fund of the City of Norfolk, Virginia

Financial and Compliance Report Fiscal Year Ended June 30, 2020

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Financial and Compliance Report
June 30, 2020

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Wastewater Utility Fund of the City of Norfolk, Virginia (the Fund), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Wastewater Utility Fund of the City of Norfolk, Virginia, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Fund Financial Statements

As discussed in Note 1 to the basic financial statements, the accompanying financial statements present only the Wastewater Utility Fund and do not purport to, and do not present fairly the financial position of the City of Norfolk, Virginia, the changes in its financial position or its cash flows thereof, where applicable, in conformity with the U.S. generally accepted accounting principles. Our auditor's opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 8 and required supplementary information, as listed in the table of contents on pages 33 - 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The Supplemental Debt Capacity Information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Honorable Members of City Council
City of Norfolk, Virginia

The Supplemental Debt Capacity Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Debt Capacity Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report December 15, 2020, on our consideration of the Fund'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 Fund'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 Fund's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Arlington, Virginia
December 15, 2020

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2020

The following discussion and analysis of the Wastewater Utility Fund of the City of Norfolk's (the "Fund") financial performance provides an overview of the Fund's financial activities for the fiscal year ended June 30, 2020. The intent of the management discussion and analysis is to provide a summarized view of the Fund's financial performance and should be reviewed in conjunction with the basic financial statements and supporting notes for a complete understanding of the Fund's financial performance.

Financial Highlights for the Fiscal Year 2020

- For the fiscal year ended June 30, 2020, the Fund reported net operating revenues of \$31,817,215, an increase of 1.62% from fiscal year 2019 net operating revenues.
- The Fund's total operating expenses for fiscal year 2020 were 19,190,658, an increase of 4.98% from fiscal year 2019 operating expenses.
- Total net position was \$148,407,132 as of June 30, 2020 and was comprised of net investment in capital assets of \$125,130,632, restricted net position of \$500,651, and unrestricted net position of \$22,775,849. Total net position is defined as total assets and deferred outflows of resources less total liabilities and deferred inflows of resources.
- The Fund's total cash and investments as of June 30, 2020 were \$25,040,503.
- As of June 30, 2020, the Fund had outstanding general obligation and revenue bonds payable and unamortized bond premium of \$167,208,665. This was a 2.05% decrease in the outstanding bonds payable as compared to June 30, 2019. During the fiscal year 2020, the Fund was awarded a \$9,000,000 Virginia Clean Water Revolving Loan at 0.5% interest, with the principal forgiveness portion of \$454,770. The total amounts of General Obligation and revenue bonds retired and refunded were \$5,067,097 and \$16,497,757 respectively, for the fiscal year 2020. During the fiscal year 2020, the Fund also converted issued \$25,784,558 of new and refunding General Obligation bonds.

Financial Statements Overview

The Fund's financial statements are reported on the full accrual basis of accounting as required by U.S. Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). These financial statements include, in addition to the management discussion and analysis, the basic financial statements and related notes and required supplementary information. The basic financial statements are comprised of three statements, the statement of net position, the statement of revenues, expenses and changes in net position and the statement of cash flows.

The statement of net position presents information on all Fund assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference 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 Fund is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how 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 those items that will result in cash flows in future fiscal periods.

The statement of cash flows, when taken together with the statement of net position and statement of revenues, expenses, and changes in net position, provides the reader a complete "snapshot" of the financial condition and results of operations of the Fund as of June 30, 2020 and for the year then ended.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2020

Notes to the financial statements are an integral part of the statements and should be read in conjunction with the financial statements and Management's Discussion and Analysis.

Financial Analysis

The following financial analysis provides insight into the factors that had a significant impact on the variance between fiscal years 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Current assets	\$ 29,886,318	\$28,863,766
Capital assets	290,333,433	280,034,657
Deferred outflows of resources	<u>5,682,703</u>	<u>4,429,430</u>
Total assets and deferred outflows of resources	<u>\$ 325,902,454</u>	<u>\$313,327,853</u>
Current liabilities	\$ 16,092,710	\$16,248,181
Long-term liabilities	160,643,945	158,033,035
Deferred inflows of resources	<u>758,667</u>	<u>279,920</u>
Total liabilities and deferred inflows of resources	<u>\$ 177,495,322</u>	<u>\$ 174,561,136</u>
Net position:		
Net investment in capital assets	\$ 125,130,632	\$ 116,447,480
Restricted	500,651	-
Unrestricted	<u>22,775,849</u>	<u>22,319,237</u>
Total net position	<u>\$ 148,407,132</u>	<u>\$ 138,766,717</u>

Overall, total net position increased by approximately \$9.6 million from fiscal year 2019. Net investment in capital assets was 84.3% of the total net position at June 30, 2020. Restricted resources were 0.34% of the net position. The unrestricted resources of \$22,775,948 may be used to meet to the Fund's ongoing obligations to citizens and creditors.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2020

The table below provides a summary of revenues, expenses and changes in net position for the years ended June 30, 2020 and 2019.

	2020	2019
Operating revenues, net	\$ 31,817,215	\$ 30,309,706
Operating expenses	19,190,658	18,280,874
Operating income	12,626,557	13,028,832
Non-operating revenues	421,157	413,598
Non-operating expenses	(3,407,299)	(3,427,579)
Total non-operating expenses	(2,986,142)	(3,013,981)
Change in net position	9,640,415	10,014,851
Net position – beginning	138,766,717	128,751,866
Total net position - ending	\$ 148,407,132	\$ 138,766,717

For the fiscal year ending June 30, 2020, the Fund reported net revenue of \$32,238,372 and expenses of \$22,597,957, an increase in net position of \$9,640,415. The operating revenue increase of 1.62% from fiscal year 2019 is the result of expected increase in rates and in line with the approved budgeted amount for the fiscal year ended June 30, 2020. For fiscal year ending June 30, 2020, operating expenses increased by 4.98% from fiscal year 2019 as a result of expected increase in annual operating costs.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2020

A summary of the Fund's net capital assets at June 30, 2020 and 2019 are as follows:

	2020	2019
Land	\$ 4,168,398	\$ 4,151,658
Buildings	7,409,057	7,580,284
Equipment	256,338,616	249,571,603
Construction in progress	22,417,362	18,731,112
	<u>\$ 290,333,433</u>	<u>\$ 280,034,657</u>

The Fund's capital assets totaled \$290,333,433 (net of accumulated depreciation) and account for 90.67% of total assets at June 30, 2020. The net capital assets increased by \$10,298,776 from fiscal year 2019, representing assets placed in service of \$17,386,495 less the depreciation and retirement of assets in the amount of \$7,087,719. During fiscal year 2020, major capital projects spending included designing and constructing pump stations and replacing sewer gravity and force mains.

Additional information on the Fund's capital assets can be found in Note 5 of the financial statements.

Debt Administration

The City of Norfolk (the "City") manages debt in accordance with the City's debt policies. The Fund's general obligation bonds are backed by the full faith and credit of the City. The Fund's revenue bonds are secured by the revenue generated by the Fund's wastewater collection system. Bond proceeds are used to finance capital projects that improve the City's wastewater collection system. As of June 30, 2020, the Fund had outstanding general obligation and revenue bonds payable of \$167,208,665. A summary of the Fund's outstanding bonds as of June 30, 2020 and 2019 is as follows:

	2020	2019
Revenue bonds	\$ 86,846,253	\$ 86,639,739
General obligation bonds	80,362,412	77,217,613
Total	<u>\$ 167,208,665</u>	<u>\$ 163,857,352</u>

The table below is the latest credit rating for the City's general obligation bonds as of the date of this report.

Bonding Program	Fitch Ratings	Standard and Poor's	Moody's Investors Service
General Obligation	AA+	AA+	Aa2

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2020

Future Outlook

The Fund continues to support the City of Norfolk's long-term objective of being a well-managed government and strives to enhance quality of life by providing excellent wastewater services at the best value to the City's customers. The Fund aims its attention on exceeding customer expectations through fast, effective and courteous service, protecting natural resources and fostering a healthy, safe, and clean environment, and embracing new and better ways of achieving quality results through creativity, initiative and technology.

Contacting the Fund's Financial Management

This financial report is designed to provide our citizens, clients, and taxpayers with a general overview of the Fund's finances and to demonstrate the Fund's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be forwarded to the Director of Department of Utilities, 401 Monticello Avenue, Suite 100, Norfolk, Virginia 23510.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, VA
Statement of Net Position
June 30, 2020

	2020
ASSETS	
Current assets:	
Cash and short-term investments (Note 2)	\$ 24,536,223
Restricted cash and short-term investments (Note 2)	504,280
Receivables (net)	
Accounts (Note 3)	3,212,112
Unbilled accounts (Note 4)	1,609,461
Accrued investment income	212
Inventories	24,030
Total current assets	29,886,318
Non-current assets:	
Capital assets (Note 5):	
Land and construction in progress	26,585,760
Buildings and equipment	371,700,359
Accumulated depreciation	(107,952,686)
Capital assets, net	290,333,433
Total assets	320,219,751
Deferred outflows of resources	
Related to pensions (Note 7)	1,187,637
Related to OPEB (Note 11)	104,242
Loss on defeasance of bonds (Note 6)	4,390,824
Total deferred outflows	5,682,703
Total assets and deferred outflows of resources	\$ 325,902,454

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, VA
Statement of Net Position (Continued)
June 30, 2020

LIABILITIES

Current liabilities:

Vouchers payable	\$	107,780
Vouchers payable for CIP Projects		1,694,750
Contract retainage		648,382
Accrued interest		822,808
Accrued payroll		102,830
Current portion of bonds payable (Note 6)		12,265,483
Compensated absences		202,717
Other current liabilities		247,960
Total current liabilities		16,092,710

Non-current liabilities:

General obligation bonds payable (Note 6)		75,104,090
Revenue bonds payable (Note 6)		79,839,092
Net pension obligation (Note 7)		4,971,335
Compensated absences		146,365
Other post employment benefits (OPEB) (Note 11)		583,063
Total non-current liabilities		160,643,945
Total liabilities		176,736,655

Deferred inflows of resources

Related to pensions (Note 7)		593,883
Related to OPEB (Note 11)		153,703
Gain on defeasance of bonds (Note 6)		11,081
Total deferred inflows of resources		758,667

Total liabilities and deferred inflows of resources		177,495,322
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NET POSITION

Net investment in capital assets		125,130,632
Restricted		500,651
Unrestricted		22,775,849
Total net position	\$	148,407,132

See Notes to Financial Statements

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, VA
Statement of Revenue, Expenses and Changes in Net Position
For the Year Ended June 30, 2020

	2020
Operating Revenues:	
Charges for services, net	\$ 31,705,215
Miscellaneous	112,000
Total operating revenues, net	31,817,215
 Operating Expenses:	
Personnel services	4,727,022
Plant operations	2,145,609
Chemicals	14,973
Depreciation and amortization (note 5)	7,087,719
Pension expense (Note 7)	991,668
OPEB expense (Note 11)	52,567
Administrative expenses	1,430,649
Other	2,740,451
Total operating expenses	19,190,658
Operating Income	12,626,557
 Non-operating revenues (expenses):	
Interest income, net of interest capitalized	279,939
Intergovernmental revenue	125,644
Interest expense and fiscal charges, net of interest capitalized	(1,907,299)
Gain on sale or disposal of capital assets	15,574
Payments to General Fund	(1,500,000)
Total non-operating expenses, net	(2,986,142)
Change in net position	9,640,415
Total net position - beginning	138,766,717
Total net position - ending	\$ 148,407,132

See Notes to Financial Statements

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, VA
Statement of Cash Flows
For the Year Ended June 30, 2020

	2020
Cash flows from operating activities:	
Receipts from customers	\$ 31,649,247
Payments to suppliers	(2,588,286)
Payments to employees	(5,350,724)
Other payments	(4,803,169)
Net cash provided by operating activities	18,907,068
Cash flows from non-capital financing activities:	
Intergovernmental revenues	125,644
Payments to general fund	(1,500,000)
Net cash used in non-capital activities	(1,374,356)
Cash flows from capital and related financing activities:	
Proceeds from capital/refunding debt	32,807,927
Proceeds from sale of fixed assets	15,574
Purchases of capital assets	(17,620,978)
Refunding/refinancing of debt principal	(16,497,757)
Principal paid on capital debt	(11,883,951)
Interest paid (net of bond premium and related costs)	(4,457,376)
Net cash used in capital and related financing activities	(17,636,561)
Cash flows from investing activities:	
Proceeds from sale of investments	26,468,398
Purchase of investments	(25,622,439)
Interest and dividends	297,253
Net cash provided by investing activities	1,143,212
Net decrease in cash and cash equivalents	1,039,363
Cash and short-term investments - beginning of year	23,496,860
Cash and short-term investments - end of year	\$ 24,536,223

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, VA
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2020

Reconciliation of Operating Income to Net Cash

Provided by operating activities:

Operating income	\$	12,626,557
Adjustments to reconcile operating income to net cash		
Provided by operating activities:		
Depreciation and amortization expense		7,087,719
Effect of changes in assets and liabilities:		
Accounts receivable (net), billed and unbilled		(167,967)
Inventories		4,649
Vouchers payable		(432,354)
Accrued payroll		28,139
Net pension liability		339,827
OPEB liability		52,567
Other liabilities		(632,069)

Net cash provided by operating activities	\$	18,907,068
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Non-cash investing, capital, and financing activities:

Acquisition of capital assets through change in contract retainage	\$	71,398
Acquisition of capital assets through change in vouchers payable	\$	(290,307)
Capitalized interest	\$	269,435
Increase (decrease) in deferred inflows through change in pension obligation	\$	480,963

See Notes to Financial Statements

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

Note 1. Summary of Significant Accounting Policies

The Wastewater Utility Fund of the City of Norfolk, Virginia (the "Fund") was established at the direction of Norfolk City Council as an enterprise fund on July 1, 1984. The Fund accounts for the operation of the wastewater system owned by the City of Norfolk (the "City"). The costs of providing services on a continuing basis are financed or recovered through user charges to the City's residential and commercial customers. Activities necessary to provide wastewater services, including operations, maintenance, financing and related debt service, and billing and collections, are accounted for in the Fund. Although separate financial statements have been presented for the Fund, it is also included in the City of Norfolk's Comprehensive Annual Financial Report as a major Enterprise Fund. These financial statements are those of the Fund and not of the City of Norfolk, Virginia as a whole.

A summary of the Fund's significant accounting policies are as follows:

Basis of accounting: The accounting policies of the Fund are based upon accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Boards (GASB). The financial statements are presented using the economic resources measurement focus and the accrual-basis of accounting, wherein revenue is recognized in the accounting period in which it is earned, and expenses are recognized in the accounting period in which the related liabilities are incurred, regardless of timing of related cash flows.

Deposits and Investments: The Fund's cash and short-term investments include cash on hand, demand deposits, and short-term investments with original maturities of one year or less from the date of acquisition.

Investment statutes authorize the Fund 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 cost and qualify as external investment pools per GASB 79, *Certain External Investment Pools and Pool Participants*. The LGIP and SNAP are not registered with the Securities and Exchange Commission (SEC) as an investment company but maintains a policy to operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Pursuant to the Code of Virginia, the Treasury Board of the Commonwealth Sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at the monthly meetings.

The Fund has no formal policy regarding credit risk, interest rate risk, concentration of credit risk, custodial credit risk, or foreign investment risk.

The majority of the Fund's cash and short-term investments are pooled with the City. The City uses the pooled cash investment method, under which 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 statement 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 account.

All investments of the fund are interests in external investment pools as defined by GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, and as a result are carried at amortized cost. These external investment pools are administered by the Treasury of Virginia.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

Accounts receivable: Accounts receivable are due at the end of the fiscal year which have not been collected by year-end, net of allowance for doubtful accounts. The Fund determines past due status of individual wastewater utility account receivables based on contractual terms and generally does not charge interest on past due amounts. The Fund estimates its allowance for doubtful accounts based on a combination of factors, including the Fund's historical loss experience and any anticipated effects related to current economic conditions, as well as management's knowledge of the current composition of wastewater receivables. Accounts that management believes to be ultimately uncollectible are written off upon such determination and approval of the City Council. Unbilled accounts, net, are estimated at each fiscal year end based on wastewater usage by customers for which billings have not been processed.

Amounts for provision for bad debt are recorded as an offset to the operating revenue.

Inventories: Inventories are stated at cost. The Fund expenses inventories when consumed.

Restricted assets: Certain unspent proceeds of general obligation bonds as well as certain resources set aside for their repayment are classified as restricted assets on the Statement of Net Position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

Capital assets: Capital assets are recorded at cost, less accumulated depreciation and amortization. Assets acquired prior to July 1977, for which historical cost records were not available, were appraised and valued at estimated historical cost by means of accepted price indexing methodology.

Capital assets are defined by the Fund's capitalization policy as assets owned by the City with an initial, individual cost of more than \$5,000 and an estimated useful life greater than one year.

Depreciation: Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	40 - 75
Transmission and distribution mains	50 - 99
Service meters and meter installation	35 - 50
Pumping and other wastewater equipment	10 - 30
Furniture, fixtures and equipment	5 - 25
Intangible assets	5 - 10

When an asset is retired or otherwise disposed of, the related cost and accumulated depreciation is eliminated, and any resulting gain or loss is reflected as non-operating revenue or expense.

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.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

The Fund 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 Fund are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the Fund 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 resulting 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. No impairment of assets was recorded in 2020.

Compensated absences: It is the Fund's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation leave is fully vested when earned by Fund 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 Fund employees; however, upon retirement, Fund 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 Fund does not pay it when the employee separates from service. The additional retirement benefit is included in the actuarial liability of the Employees' Retirement Plan (ERS). The unpaid liability for vacation leave is recorded in the Fund's pension liability.

Net position: Net position in the financial statements is classified as net investment in capital assets, net of related debt; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grants, contributions, laws and regulations of other governments or imposed by law through state statutes. When both restricted and unrestricted resources are available for use, the policy is to use restricted resources first and then unrestricted resources as they are needed.

Operating and non-operating revenues and expenses: The Fund reports as operating revenues all charges for services generated through service fees and certain other miscellaneous revenues. Other revenues, including interest revenue and grants, are reported as non-operating. The Fund's operating expenses include administrative expenses, depreciation on capital assets, personnel costs, and other operating expenses related to operations of the Fund. The Fund's non-operating expenses comprise of interest expense and payments to the General Fund.

General allocations: The General Fund of the City provides administrative services to the Fund, which totaled \$1,522,449 for the year ended June 30, 2020. Charges for these services are treated as expenses by the Fund. In addition, the Fund recorded as other expenses payments to the General Fund in lieu of taxes of \$169,209 for the year ended June 30, 2020.

Bond discount, premium, issuance costs and gain or loss on defeasance: Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. The amortization amounts of bond premiums and discounts are included in interest expense. Bonds payable are reported with the applicable bond premium or discount. Bond issuance costs are expensed in the period incurred.

In accordance with GASB 65 *Items Previously Reported as Assets and Liabilities*, loss on defeasance from bond refunding is reported as deferred outflows of resources and gain on defeasance from bond refunding is reported as deferred inflows of resources in the Fund's financial statements. They are amortized using the straight-line method over the lesser of the term of the old or new debt.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Deferred inflows and outflows of resources: The Fund reports deferred inflows and outflows on its statement of net position. Deferred inflows arise when potential revenue does not meet the “measurable” and “available” criteria for recognition in the current period. Deferred outflows represent a consumption of net position applicable to a future period. The Fund reports the gains and losses on defeasance from debt refunding and certain components of net pension liability and net OPEB liability as deferred inflows and outflows.

Pension plan: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position and the additions and deductions there to, of the City of Norfolk Employees' Retirement Plan (ERS) have been determined on the same basis as they were reported by the 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.

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

Note 2. Deposits and Investments

Custodial credit risk - deposits: All deposits of the Fund are maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. Under the Act, any public depository that receives or holds public deposits (“Qualified Public Depositories”) shall elect to secure deposits by either the Pooled Method or the Dedicated Method (which became available by amendments made to the Act effective July 1, 2010). The Pooled Method requires any public depository that receives or holds public deposits to pledge collateral, ranging from 50 to 100 percent of the public deposits, to the State Treasury Board to cover public deposits in excess of Federal deposit insurance.

The Pooled Method also provides that if any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of participating governmental entities. If the value of the pool's collateral were inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to members of the pool. Under the Dedicated Method, Qualified Public Depositories are responsible for securing their own public deposits, by the pledge and deposit of eligible collateral with a qualified escrow agent, equal to or in excess of required collateral amounts, priced at a minimum of 105 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.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

Note 2. Deposits and Investments (Continued)

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 Fund will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Fund has no formal policy regarding custodial credit risk for investments.

At June 30, 2020, the Fund's cash and investments consisted of the following:

	2020
Cash, including pooled cash with City	14,676,664
External investment pools	10,363,839
	\$ 25,040,503
Cash and short-term investments	24,536,223
Restricted short-term investments	504,280
	\$ 25,040,503

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 Fund's fixed income investments as of June 30, 2020 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

Investment Type	A-1	AA+	AAAm	Total
PFM Fund Government Series	\$ -	\$ -	\$ 3,629	\$ 3,629
LGIP	-	-	10,360,210	10,360,210
Total	\$ -	\$ -	\$10,363,839	\$ 10,363,839

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

Note 2. Deposits and Investments (Continued)

Fair Value Measurement: In accordance with the authoritative guidance on fair value measurements and disclosures under U.S. GAAP, the Fund discloses the fair values of its 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 short-term investment trades daily without restriction at \$100 per unit.
- Level 3 — Unobservable inputs for the assets, including the fund's own assumptions for determining fair value.

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

External investment pools include the PFM, LGIP and SNAP investments held in the city treasury. These investments are reported at amortized cost in accordance with Rule 2a7, and qualify as external investment pools per GASB 79, *Certain External Investment Pools and Pool Participants*. Because they are not carried at fair value, they have not been assigned a value. The Fund's investments in external investment pools at June 30, 2020 are reflected above in this note.

Note 3. Accounts Receivable

Accounts receivable at June 30, 2020 are comprised of the following:

	<u>2020</u>
Wastewater maintenance fees	\$ 4,211,762
Other	350
Less allowance for uncollectible accounts	<u>(1,000,000)</u>
	<u>\$ 3,212,112</u>

The Fund recorded \$196,949 of bad debt expense which was offset against the operating revenue for the fiscal year ended June 30, 2020.

Wastewater Utility Fund
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Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

Note 4. Unbilled Accounts Receivable

At June 30, 2020, the Fund recorded \$1,609,461 as unbilled accounts receivable related to unread meters. The associated revenue is included in net charges for services. These amounts were billed in July 2020.

Note 5. Capital Assets

Capital assets at June 30, 2020 were comprised of the following:

	Balance June 30, 2019	Additions	Retirements / Transfers	Balance June 30, 2020
Nondepreciable assets:				
Land	\$ 4,151,658	\$ 16,740	\$ -	\$ 4,168,398
Construction-in-progress	18,731,112	18,030,901	(14,344,651)	22,417,362
Total nondepreciable assets	<u>\$ 22,882,770</u>	<u>\$ 18,047,641</u>	<u>\$ (14,344,651)</u>	<u>\$ 26,585,760</u>
Depreciable & amortized assets:				
Buildings	\$ 9,176,099	\$ -	\$ -	\$ 9,176,099
Equipment	348,916,686	13,683,505	(168,409)	362,431,782
Intangible assets	92,478	-	-	92,478
Total depreciable & amortized assets	<u>\$ 358,185,263</u>	<u>\$ 13,683,505</u>	<u>\$ (168,409)</u>	<u>\$ 371,700,359</u>
Less accumulated depreciation for				
Buildings	\$ (1,595,815)	\$ (171,227)	\$ -	\$ (1,767,042)
Equipment	(99,345,083)	(6,916,492)	168,409	(106,093,166)
Intangible assets	(92,478)	-	-	(92,478)
Total accumulated depreciation	<u>\$ (101,033,376)</u>	<u>\$ (7,087,719)</u>	<u>\$ 168,409</u>	<u>\$ (107,952,686)</u>
Total depreciable assets, net	<u>\$ 257,151,887</u>	<u>\$ 6,595,786</u>	<u>\$ -</u>	<u>\$ 263,747,673</u>
Total capital assets, net	<u>\$ 280,034,657</u>	<u>24,643,427</u>	<u>\$ (14,344,651)</u>	<u>\$ 290,333,433</u>

The Fund recorded \$269,435 of capitalized interest which consisted of \$273,316 interest expense and \$3,881 of interest income for the year ending June 30, 2020.

Wastewater Utility Fund
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Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

Note 6. Long-Term Obligations

General obligation bonds: A summary of general obligation bond transactions for the fiscal year ended June 30, 2020 is as follows:

	2020
Beginning, July 1	\$ 68,935,816
Bonds retired	(5,067,097)
Bonds refunded/defeased	(16,497,757)
Bonds issued	25,784,558
Bonds outstanding at June 30	73,155,520
Unamortized discount/premium, net	7,206,892
General obligation bonds outstanding at June 30, adjusted for unamortized discount/premium	80,362,412
Less current portion	(5,258,321)
Long-term portion	\$ 75,104,091

Wastewater utility general obligation bonds outstanding are comprised of the following individual issues:

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2020
Series 2010 Capital Improvement (A&B)	1/21/2010	11,790,682	4.65% - 5.962%	\$ 6,458,571
Series 2010 G Refunding	10/19/2010	6,867,368	4.00 - 5.00%	2,254,464
Series 2012 A Refunding	5/30/2012	5,888,030	2.00 - 5.00%	1,958,941
Series 2012 C Capital Improvement	6/28/2012	21,625,000	4.00 - 5.00%	1,080,000
Series 2013 A Capital Improvement	11/7/2013	7,595,000	4.00 - 5.00%	1,210,000
Series 2014 Refunding	4/2/2014	12,923,780	2.00 - 5.00%	10,062,904
Series 2014B Refunding	10/1/2014	647,450	3.29%	389,188
Series 2014C Refunding	9/30/2014	8,023,133	2.00 - 5.00%	7,777,621
Series 2015 Refunding	3/2/2015	1,826,208	3.32%	654,615
Series 2016A Refunding	10/9/2016	20,495,000	2.50 - 5.00%	6,850,000
Series 2016B Refunding	10/9/2016	7,157,290	3.00 - 5.00%	7,084,340
Series 2017C Refunding	12/5/2017	2,388,391	2.00 - 5.00%	1,590,317
Series 2019B Refunding	8/15/2019	11,197,525	2.00 - 5.00%	11,197,525
Series 2019C Refunding	8/15/2019	3,511,674	2.00 - 5.00%	3,511,674
Series 2019D Refunding	9/19/2019	3,004,554	2.00 - 5.00%	3,004,554
Series 2020A Capital Improvement	4/2/2020	5,910,000	2.00 - 5.00%	5,924,000
Series 2020B Capital Improvement	4/2/2020	2,146,806	2.00 - 5.00%	2,146,806
				\$ 73,155,520

Wastewater Utility Fund
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Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

Note 6. Long-Term Obligations (Continued)

A summary of the requirements to amortize general obligation bonds outstanding at June 30, 2020 is as follows:

Year ending June 30,	Principal	Interest
2021	\$ 5,258,321	\$ 2,686,560
2022	5,558,217	2,577,430
2023	5,614,923	2,256,879
2024	5,594,090	2,021,711
2025	5,524,322	1,871,317
2026-2030	23,987,436	6,040,523
2031-2035	10,980,184	2,736,038
2036-2040	5,827,629	1,530,016
2041-2045	3,536,286	877,587
2046-2050	1,274,112	96,614
	\$ 73,155,520	\$ 22,694,675

General obligation bonds are payable first from the revenue of the specific funds in which they are recorded; however, the full faith and credit of the City is pledged to the payment of the principal and interest on general obligation bonds.

General Obligation Bonds authorized and unissued as of June 30, 2020 were \$10,000,000

Revenue bonds: A summary of revenue bond transactions for the fiscal year ended June 30, 2020 is as follows:

	2020
Beginning, July 1	\$ 86,639,739
Bonds retired	(6,816,855)
Bonds issued	7,023,369
Bonds outstanding at June 30	86,846,253
Less current portion	(7,007,161)
	\$ 79,839,092

Wastewater Utility Fund
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Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

Note 6. Long-Term Obligations (Continued)

Wastewater utility revenue bonds outstanding are comprised of the following individual issues:

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2020
Series 2007 Wastewater Revenue	11/9/2007	\$ 17,000,000	0.00%	\$ 8,075,000
Series 2009 Wastewater Revenue	11/17/2009	7,500,000	0.00%	4,125,000
Series 2010 Wastewater Revenue	10/8/2010	10,000,000	0.00%	6,000,000
Series 2011 Wastewater Revenue	10/21/2011	9,300,000	0.00%	6,277,500
Series 2012 Wastewater Revenue	12/19/2012	11,609,355	0.00%	8,409,520
Series 2013 Wastewater Revenue	12/12/2013	10,000,000	0.00%	7,750,000
Series 2015 Wastewater Revenue	3/2/2015	8,739,049	0.00%	7,209,717
Series 2016 Wastewater Revenue	4/21/2016	5,735,579	0.00%	4,985,579
Series 2017 Wastewater Revenue	5/31/2017	6,500,000	0.00%	5,836,729
Series 2018 Wastewater Revenue	6/7/2018	7,500,000	0.00%	6,562,517
Series 2019A Wastewater Revenue	5/16/2019	9,423,794	2.00%	2,627,935
Series 2019B Wastewater Revenue	5/16/2019	11,100,000	3.10%	4,147,085
Series 2019C Wastewater Revenue	5/16/2019	11,187,809	2.25%	4,954,235
Series 2019D Wastewater Revenue	5/16/2019	14,250,000	0.00%	5,700,000
Series 2019 Wastewater Revenue	11/21/2019	10,000,000	0.00%	4,185,436
				\$ 86,846,253

A summary of the requirements to amortize revenue bonds outstanding at June 30, 2020 is as follows:

Year Ending June 30,	Principal	Interest
2021	\$ 7,007,161	\$ 281,437
2022	7,321,041	236,255
2023	7,472,024	189,908
2024	7,519,568	142,364
2025	7,261,555	93,591
2026-2030	28,460,068	76,693
2031-2035	16,020,083	-
2036-2040	5,306,781	-
2041-2045	477,972	-
	\$ 86,846,253	\$ 1,020,248

As of June 30, 2020, draws for project expenses of \$108,095, \$2,729,837 and \$4,185,437 from bond issuances in fiscal years 2017, 2018 and 2019, respectively, resulted in total VRA drawdowns of \$7,023,369 for fiscal year 2020.

Wastewater Utility Fund
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Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

Note 6. Long-Term Obligations (Continued)

Wastewater revenue bonds are payable solely from the revenue of the Fund. 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.

Note 7. Current and Advanced Refundings

On August 15, 2019, the City completed the sale of \$159,304,000 of General Obligation Refunding Bonds for savings. The Wastewater Fund portion was \$11,197,525 of this amount. The net aggregated total debt service savings for the Fund were \$1,211,237 and the total net present value savings of \$877,507 or 8.64% of the refunded principal. The reacquisition price exceeded the net carrying amount of the old debt by \$259,294. This difference will be displayed as deferred outflows and amortized over the life of the old or new debt whichever is shorter.

On August 15, 2019, the City completed the sale of \$28,955,000 of General Obligation Refunding Bonds for savings. The Wastewater Fund portion was \$3,511,674 of this amount. The net aggregated total debt service savings for the Fund were \$246,805 and the total net present value savings of \$162,920 or 7.97% of the refunded principal. The reacquisition price exceeded the net carrying amount of the old debt by \$1,120,449. This difference will be displayed as deferred outflows and amortized over the life of the old or new debt whichever is shorter.

On September 19, 2019, the City completed the sale of \$89,025,000 of General Obligation Refunding Bonds for savings. The Wastewater Fund portion was \$3,004,554 of this amount. The net aggregated total debt service savings for the Fund were \$92,723 and the total net present value savings of \$46,849 or 2.20% of the refunded principal. The reacquisition price exceeded the net carrying amount of the old debt by \$531,979. This difference will be displayed as deferred outflows and amortized over the life of the old or new debt whichever is shorter.

On April 2, 2020, the City completed the sale of \$45,630,000 of General Obligation Refunding Bonds for savings. The Wastewater Fund portion was \$2,146,805 of this amount. The net aggregated total debt service savings for the Fund were \$34,270 and the total net present value savings of \$32,466 or 1.75% of the refunded principal. The reacquisition price exceeded the net carrying amount of the old debt by \$429,691. This difference will be displayed as deferred outflows and amortized over the life of the old or new debt whichever is shorter.

As of June 30, 2020, the total deferred inflows and outflows for bond refunding were \$11,081 and \$4,390,824, respectively. The deferred outflow amortization for loss on refunding of bonds recorded for fiscal year 2020 was \$304,118. The deferred inflow amortization for gain on refunding of bonds was \$2,216 for fiscal year 2020.

Wastewater Utility Fund
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Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

Note 7. Current and Advanced Refundings (Continued)

The City defeases 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 financial statements. As of June 30, 2020, the following defeased General Obligation Refunding Bonds from advance refunding are still outstanding:

Defeased In	Original Issue	Amount	Redemption
2015	2012C	\$ 7,560,000	4/1/2021
2017	2012C	5,400,000	4/1/2021
2017	2013A	1,505,000	8/1/2023
2018	2013A	2,255,000	8/1/2023
2020	2010G	101,217	10/1/2020
2020	2012A	1,871,174	10/1/2020
2020	2013A	310,000	8/1/2020
2020	2014	1,858,404	8/1/2024
2020	2016A	11,595,000	10/1/2022
2020	2017C	761,961	3/1/2027
		\$ 33,217,756	

Note 8. Employees' Retirement System (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 Virginia Retirement System (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 Section 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 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. The normal service retirement benefit per annum is equal to 2.00% of average final compensation (average of the three highest years of compensation) times years of creditable service, with service limited to 35 years.

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. The normal service retirement benefit per annum is equal to 1.75% of average final compensation times years of creditable service, with service limited to 35 years. There is no mandatory retirement age.

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.

**Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk**

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020**

Note 8. Employees' Retirement System (ERS) (Continued)

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 City Council members hired before October 5, 2010. Total employer contributions made by the Fund to the ERS plan were \$651,841 for the year ended June 30, 2020. These contributions combined with employee contributions of \$165,616 for the year ended June 30, 2020 were expected to cover the actuarially determined contributions.

Actuarial assumptions: The actuarial assumptions 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, 2019 actuarial valuation, the actuarial assumptions include the following:

Actuarial cost method:	Entry Age Normal Cost Method
Amortization method:	Level percent closed, 20-year layers
Amortization growth rate:	3.00%
Asset valuation method:	3-year Smoothed Value
Inflation rate:	3.00%
Salary increase-General Employees:	Average annual salary increases of 5.12% over a 30-year career; based on rates that vary by years of service and are compounded annually
Investment rate of return:	7.00%
Mortality:	108% of RP-2014 adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages < 86) thereafter 100% of RP-2014 Disability Mortality adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages < 86) thereafter

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 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, 2019, are summarized in the following table:

Wastewater Utility Fund
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Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

Note 8. Employees' Retirement System (ERS) (Continued)

Asset Class	30-year 2019 Long-term Expected Real Rate of Return	Target Allocations
Private Core Real Estate	4.75%	7.50%
Master Limited Partnerships	6.50%	7.50%
Core Fixed Income	1.00%	30.00%
Core Plus Income	1.50%	0.00%
Equity (ACWI IMI)	5.15%	55.00%
		100.00%

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 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 7.00% (net of investment expenses) to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.50% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of the measurement date of June 30, 2019 was 7.00%.

Net Pension Liability: The net pension liability was measured as of June 30, 2019 with an actuarial valuation date of June 30, 2019. Pension expense and liability are allocated based on the actual employer contributions. The employer contributions made in fiscal year 2019 of \$651,841 are included as deferred outflows. As of June 30, 2020, the Fund reported a net pension liability of \$4,971,335 for its proportionate share of the collective net pension liability of the ERS plan. The net pension liability is allocated based on employer's contributions during the measurement period. At June 30, 2019 the Fund's proportion was 1.58% compared to 1.71% at June 30, 2018.

Sensitivity of the net pension liability to changes in the discount rate: The following presents the Fund's proportionate share of the net pension liability using the discount rate of 7.00%, as well as what the Fund's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
ERS Net Pension Liability	\$ 7,389,644	\$ 4,971,335	\$ 2,925,393

Wastewater Utility Fund
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Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

Note 8. Employees' Retirement System (ERS) (Continued)

Pension expense and deferred inflows and outflows of resources related to the ERS Pension: Total Pension expense for the Fund is \$991,668. At June 30, 2020, deferred inflows (outflows) reported in the City's financial statements are as follows:

	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 131,457
Change in proportionate share	356,345
Change in assumptions	106,077
	\$ 593,879

	Deferred Outflows of Resources
Net difference between projected and actual earnings on plan investments	\$ 158,100
Change in assumptions	377,696
	\$ 535,796

Deferred outflows related to pension contributions made after the measurement date by the Fund of \$651,841 will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts related to deferred inflows or resources will be recognized in pension expense as follows:

Year	Amortization of Deferred Inflows (Outflows)
2021	\$ (216,382)
2022	201,096
2023	133,812
2024	(60,443)
	\$ 58,083

Note 9. Commitments and Contingencies

Commitments for completion of capital projects authorized at June 30, 2020 were \$13,392,398.

Note 10. Litigation

From time-to-time, the Fund is a defendant in a number of lawsuits. Although it is not possible to determine the final outcome of these matters, management and the City Attorney are of the opinion that the ultimate liability will not be material and will not have a significant effect on the Fund's financial condition.

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An Enterprise Fund of the City of Norfolk

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

Note 11. Risk Management

The Fund is exposed to various risks of loss related to: theft of, damage to, and destruction of assets; injuries to employees; general liability; automobile liability; crime and employee dishonesty; professional liability; and directors' and officers' liability. The Fund's coverage is provided through the City's combination of purchased insurance policies and self-insurance plans. The City in its General Fund has committed \$7,171,121 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 required the City to utilize its reserves in any of the past three fiscal years.

Note 12. Other Postemployment Benefits (OPEB)

Plan description: The City provides post-retirement health care benefits, in accordance with adopted statutes, which require extending access to healthcare benefits to certain retirees. General City employees are eligible to participate at the earlier of age 55 and 15 years of creditable service or 25 years of creditable service. Employees who retire on accidental disability are also eligible. Retirees that elect to participate may purchase health care coverage using the same health care plans and premium structures available to active employees. Retiree participation, plan/benefit elections and contributions are administered by the City's Retirement Bureau based on the participation guidelines established by the Norfolk City Council. Benefits are currently managed on a pay-as-you-go basis and a separate financial report of the OPEB Plan is not issued. No assets are accumulated in a trust that meets the criteria established in paragraph 4 of Governmental Accounting Standards Board No.75. Therefore, rather than a net OPEB liability, the City reports a total OPEB liability. The Plan is considered a single-employer plan.

Contributions: No employee contributions are required prior to retirement to participate in or fund the OPEB Plan. The City committed to a set contribution amount as an explicit subsidy of \$25 or \$35 per month for the City per participating retiree. Effective January 1, 2014, the City eliminated healthcare coverage for post 65 retirees (e.g. retirees eligible for Medicare) along with the \$25 or \$35 monthly subsidy. The pre-65 retirees will continue to receive the subsidy and will participate in the consortium with the active employees. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans. The Plan sponsors also pay an implicit subsidy by allowing retirees to participate in the same benefit plans under the same premium structure as available to active employees, however, the Plan sponsors are not required to fund the plan other than the pay-as-you-go amount necessary to provide current benefits to employees.

Total OPEB liability: The City's total OPEB liability was measured as of June 30, 2019. The total OPEB liability was determined by an actuarial valuation performed as of June 30, 2019 using updated actuarial assumptions applied to all periods included in the measurement.

Actuarial assumptions:

For the June 30, 2019 actuarial valuation, the actuarial assumptions included the following:

Actuarial cost method	Entry Age Normal
Amortization method	Level Percent Open
Remaining Amortization Period	30 years rolling
Investment Rate of Return	3.50%
Rate of Salary Increases for Amortization	3.50%

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

Note 12. Other Postemployment Benefits (OPEB) (Continued)

Rate of Medical Inflation	6.81% (Pre-Medicare) grading to 3.25% over 19 years
Mortality	108% of RP-2014 adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages<86) thereafter
	100% of RP-2014 Disabled Mortality adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages<86) thereafter

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

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

Discount rate: The discount rate used to measure the total OPEB liability as of June 30, 2019 was 3.50%. Since the Plan utilizes a pay-as-you-go contribution policy, the discount rate used at the June 30, 2019 measurement date was based on the Bond Buyer GO 20-Bond Municipal Bond Index.

Changes in total OPEB liability:

The total pension liability was measured at of June 30, 2019 with an actuarial valuation date of June 30, 2019. OPEB expense and liability are allocated to governmental and enterprise funds. As of June 30, 2020, the Fund reported a total OPEB liability of \$583,063.

Changes to the total OPEB liability are as follows:

	2020
Beginning total OPEB liability	\$ 621,729
Service cost	63,858
Interest	23,161
Changes in proportionate share	(44,251)
Difference between expected and actual experience	(80,106)
Assumption changes	20,156
Benefit payments	(21,484)
Ending total OPEB liability	\$ 583,063

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

Note 12. Other Postemployment Benefits (OPEB) (Continued)

Sensitivity of the total OPEB liability to changes in the discount rate: The following presents the total OPEB liability using the discount rate of 3.50%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.50%) or one percentage point higher (4.50%) than the current rate:

	1.00% Decrease (2.50%)	Current Discount Rate (3.50%)	1.00% Increase (4.50%)
Total OPEB Liability	\$ 655,885	\$583,063	\$ 512,979

OPEB Expense and Deferred Inflows and Outflows of Resources: OPEB expense reported for the fiscal year ended June 30, 2020 for the Fund was \$52,567. At June 30, 2020, the Fund reported deferred inflows of resources and deferred outflows of resources related to the OPEB Plan from the following sources:

	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 107,429
Net change in proportionate share	46,273
	\$ 153,702
	Deferred Outflows of Resources
Change in assumptions	\$ 80,809

Contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2021. The Fund's contributions were \$23,433 in the fiscal year ended June 30, 2020.

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

Year	Amortization of Deferred Inflows (Outflows)
2021	\$ 11,018
2022	11,020
2023	11,020
2024	11,020
2025	13,930
Thereafter	14,885
	\$ 72,893

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

Note 13. Accounting Pronouncements Issued but not yet Implemented

- GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported by establishing criteria for identifying fiduciary activities of all state and local governments. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.
- GASB Statement No. 87, *Leases*. The objective of this Statement is to improve accounting and financial reporting for leases by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the end of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The requirements of this Statement are applied prospectively.
- GASB Statement No. 90, *Majority Equity Interests — an amendment of GASB Statements No. 14 and No. 61*. The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.
- GASB Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.
- GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. The effective dates of certain provisions contained in the following pronouncements are postponed by one year:
 - Statement No. 83, Certain Asset Retirement Obligations
 - Statement No. 84, Fiduciary Activities
 - Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
 - Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period
 - Statement No. 90, Majority Equity Interests
 - Statement No. 91, Conduit Debt Obligations
 - Statement No. 92, Omnibus 2020

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2020

Note 13. Accounting Pronouncements Issued but not yet Implemented (Continued)

- Statement No. 93, Replacement of Interbank Offered Rates
- Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)
- Implementation Guide No. 2018-1, Implementation Guidance Update—2018
- Implementation Guide No. 2019-1, Implementation Guidance Update—2019
- Implementation Guide No. 2019-2, Fiduciary Activities

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, Leases
- Implementation Guide No. 2019-3, Leases

The requirements of this Statement are effective immediately.

Note 14. Subsequent Events

Virginia Clean Water Revolving Loan Fund Program – on September 25, 2020, the Director of the Department of Environmental Quality (DEQ) tentatively approved the fiscal year 2021 loan assistance from the Virginia Clean Water Revolving Loan Fund, subject to receipt of public review/comments and final authorization from the State Water Control Board.

General Obligation Wastewater Bond, Series 2004, as Amended (C-515310-02) – on October 13, 2020, the Department of Environmental Quality (DEQ) has authorized a reduction of the cost of funds of \$11,100,000 General Obligation Wastewater Bond, Series 2004, as Amended, from 3.10% to 1.00%. The total cost reduction resulted in \$240,000 savings to the Fund.

Pollution Remediation Obligation – Subsequent to June 30, 2020, the Fund identified a potential pollution remediation obligation of approximately \$795,000 in connection with one of its construction projects, which imposes the responsibility for the City to clean up contaminated soils prior to completion of construction work. The Fund will record the related liability upon finalizing the approval of project costs.

General Obligation Refunding Bonds, Series 2020C - On October 15, 2020, the City completed the sale of \$77,825,000 of General Obligation Refunding Bonds for savings. The Wastewater Fund portion of par value was \$7,212,946. Aggregate total net present value savings were \$3,001,517 or 4.8% of the original debt service requirements. The total net present value savings for the Fund were \$688,439 or 9.54% of the refunded principal.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk

Required Supplementary Information
For the Fiscal Year Ended June 30, 2020

City of Norfolk
City OPEB Liability
Wastewater Utility Fund
Schedule of Changes in Total OPEB Liability and Related Ratios (unaudited)
For Last Three Fiscal Years

	2020	2019	2018
Total OPEB liability			
Service costs	\$ 63,858	\$ 42,408	\$ 46,832
Interest	23,161	20,112	15,346
Changes of proportionate share	(44,251)	(22,255)	-
Difference between expected and actual experience	(80,106)	(34,205)	(25,087)
Changes in assumptions	20,156	63,162	32,228
Benefits payments, including refunds of member contributions	(21,484)	(20,873)	(22,149)
Net change in total OPEB liability	(38,666)	48,349	47,170
Total OPEB liability - beginning	\$ 621,729	\$ 573,380	\$ 526,210
Total OPEB liability - ending	<u>\$ 583,063</u>	<u>\$ 621,729</u>	<u>\$ 573,380</u>
Plan fiduciary net position			
Employer contributions	\$ -	\$ -	\$ -
Employee contributions	-	-	-
Net investment income	-	-	-
Benefit payments, including refunds of member contributions	-	-	-
Administrative expense	-	-	-
Net change in fiduciary net position	-	-	-
Total net position - restated beginning	-	-	-
Total net position - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net pension liability	<u>\$ 583,063</u>	<u>\$ 621,729</u>	<u>\$ 573,380</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%	0.00%
Covered-employee payroll	\$ 3,139,833	\$ 3,398,897	\$ 3,494,837
Net OPEB liability as a percentage of covered employee payroll	18.57%	18.29%	16.41%

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

**Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk**

**Required Supplementary Information
For the Fiscal Year Ended June 30, 2020**

**City of Norfolk
Norfolk Employee Retirement System
Wastewater Utility Fund
Schedule of Employer Contributions (unaudited)
Last 10 Fiscal Years
(Amounts in thousands)**

Fiscal Years	Actuarially Determined Required Contributions*	Employer Contributions*	Contribution Deficiency (Excess)	Employer's Covered Payroll**	Contributions as a % of Covered Payroll
2020	\$ 652	\$ 652	\$ -	\$ 3,095	21.06%
2019	588	588	-	3,268	17.99%
2018	606	606	-	3,339	18.13%
2017	594	594	-	3,039	19.54%
2016	532	532	-	3,114	17.09%
2015	667	609	58	3,119	19.53%
2014	669	669	-	3,098	21.59%
2013	729	729	-	2,980	24.46%
2012	755	755	-	2,971	25.41%
2011	739	739	-	3,069	24.08%

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

** The actuarial determination of the ADC is based on the projection of covered payroll for the period for which the ADC will apply. The covered payroll was provided by the actuary.

**Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk**

**Required Supplementary Information
For the Fiscal Year Ended June 30, 2020**

**City of Norfolk
Norfolk Employee Retirement System
Wastewater Utility Fund
Schedule of Proportionate Share of the Net Pension Liability (unaudited)
Last Six Fiscal Years
(Amounts in thousands)**

Fiscal Years	Proportionate Share as a percent of Employer Contribution	Proportionate Share of the Net Pension Liability	Employer's Covered Payroll**	Proportionate Share of Net Pension Liability as a percent of Covered Payroll	Plan Fiduciary Net Position as a percent of Total Pension Liability
2020	1.58%	\$ 4,971	\$ 3,095	160.60%	77.56%
2019	1.71%	5,280	3,268	161.59%	77.65%
2018	1.78%	5,012	3,339	150.10%	78.71%
2017	1.73%	4,695	3,039	154.49%	78.22%
2016	1.74%	3,689	3,114	118.45%	82.74%
2015	1.72%	2,846	3,119	91.25%	86.53%

** The actuarial determination of the ADC is based on the projection of covered payroll for the period for which the ADC will apply. The covered payroll was provided by the actuary.

This schedule is intended to show information for 10 years. Since 2015 was the first year for presentation, no other data are available. However, additional years will be included as they become available.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, Virginia

Other Supplementary Information
For Fiscal Year Ended June 30, 2020

Debt Capacity Information - Revenue Bonds Debt Service Coverage
Last Five Fiscal Years

Fiscal Year	Revenue	Operating Expenses	Available for Debt Service	Debt Service			Coverage
	Available for Debt Service (1)	Less Depreciation & Amortization (2)		Principal	Interest	Total	
2016	28,028,027	10,347,338	17,680,689	3,019,967	-	3,019,967	5.85
2017	29,246,659	12,826,121	16,420,538	3,488,443	-	3,488,443	4.71
2018	30,336,506	11,186,214	19,150,292	3,856,919	-	3,856,919	4.97
2019	31,582,034	11,291,981	20,290,053	4,472,229	78,580	4,550,809	4.46
2020	32,097,154	11,933,730	20,163,424	6,816,855	325,483	7,142,338	2.82

1. Includes operating revenue plus interest income, net of interest capitalized.
2. Includes operating expenses less depreciation/amortization and payment in lieu of taxes (PILOT).



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Wastewater Utility Fund of the City of Norfolk, Virginia (the Fund), an enterprise fund of the City of Norfolk, Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report dated December 15, 2020.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

The Honorable Members of the City Council
Norfolk, Virginia

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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 Standards*.

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 Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Arlington, Virginia
December 15, 2020