

# **Water Utility Fund**

**An Enterprise Fund of the City of Norfolk, Virginia**

## **Financial and Compliance Report Fiscal Year Ended June 30, 2020**

**Water Utility Fund**  
**An Enterprise Fund of the City of Norfolk, Virginia**  
**Financial and Compliance Report**  
**Fiscal Year Ended 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 Water 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 Water 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 Water 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, 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 31 - 33 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 dated 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Arlington, Virginia  
December 15, 2020

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

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The following discussion and analysis of the Water Utility Fund of the City of Norfolk, Virginia'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 has reported net operating revenues of \$94,060,894, which represents a decrease of 17.19% from fiscal year 2019 operating revenues. This decrease is primarily due to one-time payment received from Virginia Beach City in FY 2019.
- The Fund's operating expenses for fiscal year 2020 were \$55,471,145, an increase of 2.01% from fiscal year 2019 operating expense.
- Total net position of \$340,156,981 which is defined as total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, includes net investment in capital assets of \$244,423,643; restricted net position of \$26,048,420 required by the Water Revenue Bonds Master Indenture of Trust as reserve funds for operating, repair and replacement, rate stabilization, and debt service; and \$69,684,918 unrestricted net position as of June 30, 2020.
- The Fund's total cash and investments as of June 30, 2020 were \$103,269,040 including restricted cash and investments.
- For fiscal year 2020, the Fund had total outstanding revenue bonds payable of \$295,450,000. The total revenue bonds retired for fiscal year ended June 30, 2020 was \$13,830,000.

**Financial Statements Overview**

The Fund's financial statements are reported on the full accrual basis 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.

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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.

	2020	2019
Current assets	\$ 121,383,600	\$ 117,241,892
Capital assets	576,486,618	570,315,018
Deferred outflows of resources	16,146,011	17,764,449
Total assets and deferred outflows of resources	<u>\$ 714,016,229</u>	<u>\$ 705,321,359</u>
Current liabilities	\$ 30,060,784	\$ 23,487,159
Long-term liabilities	342,246,090	364,019,632
Deferred inflows of resources	1,552,374	577,190
Total liabilities	<u>\$ 373,859,248</u>	<u>\$ 388,083,981</u>
Net position:		
Net investment in capital assets	\$ 244,423,643	\$ 222,121,938
Restricted	26,048,420	25,221,583
Unrestricted	69,684,918	69,893,857
Total net position	<u>\$ 340,156,981</u>	<u>\$ 317,237,378</u>

Overall, total net position increased by approximately \$22.9 million at June 30, 2020 as compared to June 30, 2019. Net investment in capital assets was 71.9% of the total net position at June 30, 2020. Restricted resources were 7.7% of the total net position. The remaining unrestricted resources of \$69,684,918 may be used to meet to the Fund's ongoing obligations to citizens and creditors.



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

	2020	2019
Operating revenues, net	\$ 94,060,894	\$ 113,585,937
Operating expenses	55,471,145	54,376,871
Operating income	\$ 38,589,749	\$ 59,209,066
Non-operating revenues	\$ 1,782,173	\$ 1,971,776
Non-operating expenses	(17,655,011)	(38,375,439)
Total non-operating expenses	(15,872,838)	(36,403,663)
Net income before contributions	22,716,911	22,805,403
Capital contributions	202,692	380,664
Change in net position	\$ 22,919,603	\$ 23,186,067
Net position – beginning	317,237,378	294,051,311
Total net position - ending	\$ 340,156,981	\$ 317,237,378

For the fiscal year ending June 30, 2020, the Fund reported revenues of \$95,843,073, expenses of \$73,126,156, and net income before contributions of \$22,716,911. The operating revenue decrease of 17.19% is the result of one-time \$20.0 million payment received in FY 2019 from Virginia Beach City pursuant to an amendment of the water sales contract. The change in the FY 2020 operating revenues also is a result of expected increase in water rates established by the City Ordinances. For fiscal year ending June 30, 2020, operating expenses increased by 2.01% from fiscal year 2019.

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

Capital Assets	2020	2019
Land	\$ 12,019,425	\$ 12,000,425
Land improvements	13,836,193	14,242,510
Buildings	203,243,782	205,660,983
Equipment	315,343,459	314,983,921
Intangible assets	5,517,285	5,484,907
Construction in progress	26,526,474	17,923,272
	<u>\$ 576,486,618</u>	<u>\$ 570,315,018</u>

The Fund's capital assets totaled \$576,486,618 (net of accumulated depreciation) and accounted for 82.6% of total assets at June 30, 2020. The net capital assets increased by \$6,171,600 from the fiscal year 2019, representing assets placed in service of \$13,121,141 and a increase in construction in progress of \$8,603,202, the depreciation of assets in the amount of \$15,529,670, and transfer of one asset of \$23,073 from the Wastewater Fund. During fiscal year 2020, major capital projects spending included replacing and rehabilitating water mains, upgrading water treatment plants and pump stations, and designing and constructing dams and spillways.

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

### **Debt Administration**

As of June 30, 2020, the Fund had outstanding revenue bonds of \$295,450,000 and unamortized bond premiums and discounts of \$42,008,169. The total outstanding revenue bonds balance for years ending June 30, 2020 and 2019 were \$337,458,169 and \$357,006,644, respectively. The City of Norfolk (the "City") manages debt in accordance with the City's debt policies. Water revenue bond proceeds are used to finance capital projects that improve the City's water system. Water system revenue secures outstanding revenue bonds.

The table below is the latest credit rating for the Fund's water revenue bond programs as of the date of this report.

Bonding Program	Fitch Ratings	Standard and Poor's	Moody's Investors Service
Water Revenue	AA+	AA+	Aa2

### **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 Water 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.

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

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**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.

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

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**ASSETS**

Current assets:

Cash and short-term investments (Note 2)	\$ 77,220,620
Receivables:	
Accounts (net) (Note 3 and 8)	9,574,595
Unbilled accounts (Note 4 and 8)	5,340,884
Accrued investment income	113,387
Inventories	2,980,858
Restricted investment held with fiscal agent (Note 2)	13,156,715
Reserve funds (Note 2)	12,891,705
Prepaid Expenses	104,836
<b>Total current assets</b>	<b>121,383,600</b>

Non-current assets:

Capital assets (Note 5):	
Non-depreciable assets	43,161,944
Depreciable assets	817,367,913
Accumulated depreciation and amortization	(284,043,239)
Capital assets, net	576,486,618
<b>Total assets</b>	<b>697,870,218</b>

**Deferred outflows of resources**

Pensions (Note 7)	4,144,092
OPEB (Note 12)	361,921
Loss on defeasance of bonds (Note 6)	11,639,998
<b>Total deferred outflows</b>	<b>16,146,011</b>

<b>Total assets and deferred outflows of resources</b>	<b>\$ 714,016,229</b>
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**Water Utility Fund**  
**An Enterprise Fund of the City of Norfolk, VA**  
**Statement of Net Position (Continued)**  
**June 30, 2020**

**LIABILITIES**

Current liabilities:

Vouchers payable	\$ 1,228,488
Vouchers payable for CIP projects	5,658,019
Contract retainage	586,785
Accrued payroll	349,467
Internal balances	381,553
Compensated absences	707,425
Current portion of bonds payable (Note 6)	15,965,000
Liabilities payable from restricted assets	2,444,912
Other current liabilities	2,739,135
<b>Total current liabilities</b>	<b>30,060,784</b>

Non-current liabilities:

Revenue bonds payable (Note 6)	321,493,169
Net pension liability (Note 7)	18,210,252
Compensated absences	406,929
Liability for other post employment benefits (OPEB) (Note 12)	2,135,740
Total non-current liabilities	342,246,090
<b>Total liabilities</b>	<b>372,306,874</b>

**Deferred inflows of resources**

Related to pensions (Note 7)	1,132,830
OPEB (Note 12)	419,544
Total deferred Inflows	1,552,374

<b>Total liabilities and deferred inflows of resources</b>	<b>373,859,248</b>
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**NET POSITION**

Net investment in capital assets	244,423,643
Restricted	26,048,420
Unrestricted	69,684,918
<b>Total net position</b>	<b>\$ 340,156,981</b>

See Notes to Financial Statements

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

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**Operating Revenues:**

Charges for services, net	\$ 91,376,988
Miscellaneous	2,683,906
<b>Total operating revenues, net</b>	<b>94,060,894</b>

**Operating Expenses:**

Personnel services	15,564,135
Plant operations	5,874,412
Chemicals	2,615,435
Depreciation and amortization	15,529,670
Pension expense (Note 7)	3,849,788
OPEB expense (Note 12)	218,876
Administrative expenses	1,912,330
Other	9,906,499
<b>Total operating expenses</b>	<b>55,471,145</b>
<b>Operating income (loss), net</b>	<b>38,589,749</b>

**Non-operating revenues (expenses):**

Interest income, net of interest capitalized	1,782,173
Interest expense and fiscal charges, net of interest capitalized	(9,170,905)
Gain (loss) on sale or disposal of capital assets	16,920
Miscellaneous revenue (expense)	(1,026)
Payments to General Fund	(8,500,000)
<b>Total non-operating revenues (expenses)</b>	<b>(15,872,838)</b>
<b>Net income (loss) before contributions and transfers</b>	<b>22,716,911</b>
Capital contributions	202,692
<b>Changes in net position</b>	<b>22,919,603</b>

<b>Total net position - beginning</b>	<b>317,237,378</b>
<b>Total net position - ending</b>	<b>\$ 340,156,981</b>

See Notes to Financial Statements

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

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**Cash flows from operating activities:**

Receipts from customers	\$ 93,861,034
Payments to suppliers	(8,906,677)
Payments to employees	(17,683,762)
Other payments	(9,597,487)
<b>Net cash provided by operating activities</b>	<u>57,673,108</u>

**Cash flows from non-capital financing activities:**

Internal activity, payments from other funds	(15,574)
Payments to general fund	(8,500,000)
<b>Net cash used in non-capital activities</b>	<u>(8,515,574)</u>

**Cash flows from capital and relating financing activities:**

Contributed capital	202,692
Purchases of capital assets	(18,949,731)
Net proceeds from sale of capital assets	16,920
Principal paid on capital debt	(13,830,000)
Interest paid (net of bond premium and related costs)	(14,328,476)
<b>Net cash used in capital and related financing activities</b>	<u>(46,888,595)</u>

**Cash flows from investing activities:**

Proceeds from sale of investments	32,518,482
Purchase of investments	(33,346,345)
Interest and dividends	1,825,492
<b>Net cash provided by investing activities</b>	<u>997,629</u>

Net increase in cash and cash equivalents 3,266,568

Cash and short-term investments - beginning of year 73,954,052

Cash and short-term investments - end of year \$ 77,220,620

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

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**Reconciliation of Operating Income to Net Cash**

**Provided by operating activities:**

Operating income	\$	38,589,749
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Adjustments to reconcile operating income to net cash

Provided by operating activities:

Depreciation and amortization expense		15,529,670
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Effect of changes in assets and liabilities:

Accounts receivable (net), billed and unbilled		(199,862)
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Inventories		146,587
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Vouchers payable		(525,068)
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Accrued payroll		122,895
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Net pension liability		1,607,266
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OPEB liability		218,876
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Other liabilities		2,182,995
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<b>Net cash provided by operating activities</b>	<b>\$</b>	<b>57,673,108</b>
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**Non-cash investing, capital, and financing activities:**

Unrealized loss on investments	\$	(1,026)
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Acquisition of capital assets through change in contract retainage	\$	224,537
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Acquisition of capital assets through change in vouchers payable	\$	2,527,002
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Capitalized interest	\$	522,944
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Increase (decrease) in deferred inflows through change in pension obligation	\$	975,184
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See Notes to Financial Statements



**Water Utility Fund**  
**An Enterprise Fund of the City of Norfolk, Virginia**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

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**Note 1.           Summary of Significant Accounting Policies**

The Water Utility Fund (the "Fund") was established at the direction of Norfolk City Council as an enterprise fund on July 1, 1979. The Fund accounts for the provision of water services to City of Norfolk (the "City") residents, municipal customers and others outside the City. Activities necessary to provide water services, including operations, maintenance, financing and related debt service, and billing and collection, 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 is 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 maintain a policy to operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Pursuant to the Code of Virginia, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their monthly meetings.

The 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 at the time of purchase 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.

**Water Utility Fund**  
**An Enterprise Fund of the City of Norfolk, Virginia**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

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**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 water 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 water receivables. Accounts that management believes to be ultimately uncollectible are written off upon such determination and approval by the City Council. Unbilled accounts, net, are estimated at each fiscal year-end based on water usage by customers for whom billings have not yet 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 revenue bonds as well as certain resources set aside for their repayment are classified as restricted 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 historical 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	35 - 100
Transmission and distribution mains	40 - 100
Service meters and meter installation	35 - 50
Pumping and other water equipment	10 - 60
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 are 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.

**Water Utility Fund**  
**An Enterprise Fund of the City of Norfolk, Virginia**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

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**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 value of the asset or materially extend asset 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 when the employee separates from service. The additional retirement benefit is included in the City's actuarial liability of the Employee's 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 invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through state statutes. 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 \$2,503,990 for the fiscal 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 \$3,270,050 for the fiscal 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.

**Water Utility Fund**  
**An Enterprise Fund of the City of Norfolk, Virginia**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

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**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 the Fund 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.

**Water Utility Fund**  
**An Enterprise Fund of the City of Norfolk, Virginia**  
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**For the Fiscal Year Ended June 30, 2020**

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**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 deposits and investments consisted of the following:

	2020
Cash, including pooled cash with City of Norfolk	\$ 34,155,377
External investment pools	69,113,663
	<u>\$ 103,269,040</u>
 Cash and short-term investments	 \$ 77,220,620
Restricted short-term investments held with fiscal agent	13,156,715
Reserve funds	12,891,705
	<u>\$ 103,269,040</u>

Credit risk related to issuer: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The 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	AA+	AAAm	Total
SNAP US Agency Notes	\$ 2,319,697	-	2,319,697
PFM Funds Government Series	-	13,156,715	13,156,715
LGIP		53,637,251	53,637,251
	<u>\$ 2,319,697</u>	<u>\$ 66,793,966</u>	<u>\$ 69,113,663</u>

**Water Utility Fund**  
**An Enterprise Fund of the City of Norfolk, Virginia**  
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**For the Fiscal Year Ended June 30, 2020**

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**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 prioritizes 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 like 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. 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 level. 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 were comprised of the following:

	2020
Governmental	\$ 2,920,622
Residential	3,828,015
Commercial	1,111,845
Utility taxes	785,459
Industrial	260,763
Other	2,762,891
	11,669,595
Less allowance for uncollectible accounts	(2,095,000)
	\$ 9,574,595

**Water Utility Fund**  
**An Enterprise Fund of the City of Norfolk, Virginia**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

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**Note 3. Accounts Receivable (Continued)**

The Fund recorded \$415,431 as provision for bad debts which was offset against the operating revenue for the fiscal year ended June 30, 2020.

**Note 4. Unbilled Accounts Receivable**

At June 30, 2020, the Fund recognized \$5,340,884 as unbilled accounts receivable. 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	\$ 12,019,425	\$ -	\$ -	\$ 12,019,425
Intangible assets	4,616,045	-	-	4,616,045
Construction in progress	17,923,272	22,813,391	(14,210,189)	26,526,474
Total nondepreciable assets	34,558,742	22,813,391	(14,210,189)	43,161,944
Depreciable & amortized assets:				
Land improvements	20,787,445	-	-	20,787,445
Buildings	274,168,981	2,288,603	-	276,457,584
Equipment	501,731,389	10,523,792	(111,359)	512,143,822
Intangible assets	7,670,316	308,746	-	7,979,062
Total depreciable & amortized assets	804,358,131	13,121,141	(111,359)	817,367,913
Less accumulated depreciation for				
Land improvements	(6,544,935)	(406,317)	-	(6,951,252)
Buildings	(68,507,998)	(4,705,804)	-	(73,213,802)
Equipment	(186,747,468)	(10,141,181)	88,286	(196,800,363)
Intangible assets	(6,801,454)	(276,368)	-	(7,077,822)
Total accumulated depreciation	(268,601,855)	(15,529,670)	88,286	(284,043,239)
Depreciable assets, net	535,756,276	(2,408,529)	(23,073)	533,324,674
Total capital assets, net	\$ 570,315,018	\$ 20,404,862	\$ (14,233,262)	\$576,486,618

The Fund capitalized interest of \$522,944 which consisted of \$715,899 of interest expense and \$192,955 of interest income for the fiscal year ended June 30, 2020.

**Water Utility Fund**  
**An Enterprise Fund of the City of Norfolk, Virginia**  
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**Note 6. Long-Term Obligations**

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

	2020
Revenue bonds outstanding at July 1	\$ 309,280,000
Bonds retired	(13,830,000)
Bonds outstanding at June 30	295,450,000
Unamortized discount/premium, net	42,008,169
Revenue bonds outstanding at June 30, adjusted for unamortized discount/premium	337,458,169
Less current portion	(15,965,000)
Long-term portion	\$ 321,493,169

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

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2020
Series 2010 Water Revenue	9/30/2010	47,415,000	2.50 - 4.50%	20,490,000
Series 2012 Water Revenue Refunding	4/4/2012	176,925,000	5.00%	30,270,000
Series 2015A Water Revenue	4/16/2015	29,660,000	5.25%	29,660,000
Series 2015B Water Revenue Refunding	4/16/2015	54,020,000	5.00-5.25%	53,785,000
Series 2017 Water Revenue Refunding	12/18/2017	134,545,000	5.00%	134,545,000
Series 2018 Water Revenue	3/26/2018	26,700,000	2.50-5.00%	26,700,000
Total Water Utility Revenue Bonds				\$ 295,450,000

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

<u>Year Ending June 30,</u>	Principal	Interest
2021	\$ 15,965,000	\$ 14,311,275
2022	17,170,000	13,504,400
2023	18,335,000	12,632,275
2024	19,440,000	11,687,900
2025	18,075,000	10,757,525
2026-2030	66,085,000	42,279,013
2031-2035	44,685,000	29,325,688
2036-2040	44,260,000	18,237,806
2041-2045	46,115,000	7,631,181
2046-2048	5,320,000	408,000
	\$ 295,450,000	\$ 160,775,063



**Water Utility Fund**  
**An Enterprise Fund of the City of Norfolk, Virginia**  
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**Note 6. Long-Term Obligations (Continued)**

Water revenue bonds are payable solely from the revenue of the Fund. The most restrictive covenant of the water revenue bonds requires that the Fund's net revenue to be not less than the greater of (i) the sum of 1.1 times senior debt service and 1.0 times subordinated debt service for the fiscal year or (ii) 1.0 times the funding requirements for transfers from the Revenue Fund to the Operating Fund, the Bond Fund, the Parity Debt Service Fund, the Debt Service Revenue Fund, the Subordinated Debt Service Fund and the Repair and Replacement Reserve Fund, and the Rate Stabilization Fund. Pursuant to the terms of the revenue bond indenture, certain resources have been set aside for the repayment of the revenue bonds. These resources are classified as restricted cash and investments held with fiscal agent on the Statement of Net Position because their use is limited by applicable bond covenants.

Bonds authorized and unissued as of June 30, 2020 were \$69,963,989.

**Note 7. Current and Advanced Refundings**

The City defeases certain 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 Water Revenue Bonds from advance refunding are still outstanding:

Defeased In	Original Issue	Amount	Redemption
2018	2010	\$ 17,815,000	11/1/2020
2018	2012	82,650,000	5/1/2022
2018	2013	43,070,000	5/1/2021
		<u>\$ 143,535,000</u>	

As of June 30, 2020, the total deferred outflows on bond refunding was \$11,639,998. The amortization expense for the year ended June 30, 2020 was \$666,831.

**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 Chapter 37 of the Code of the City of Norfolk, Virginia, as amended. ERS pension expenses and liabilities are allocated to the Fund 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 2.0% of average final compensation (average of the three highest years of compensation) times years of creditable service, with service limited to 35 years.

**Water Utility Fund**  
**An Enterprise Fund of the City of Norfolk, Virginia**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

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

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.

Contributions: Section 37 of the Code of the City of Norfolk, Virginia, established the authority under which the City's obligation to contribute to the Plan is determined. Contribution requirements are actuarially determined at the end of each fiscal year and paid by the City in the ensuing year. Effective January 8, 2015, all Plan members pay contribution on a salary reduction basis in the amount of 5 percent of earnable compensation, with the exception of the City Council members hired before October 5, 2010. Total employer contributions made by the Fund to the ERS plan were \$2,242,522 for the year ended June 30, 2020. These contributions combined with employee contributions of \$567,058 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-years layers
Amortization growth rate	3.00%
Asset valuation method	3-year Smoothed Value
Inflation rate	3.00%
Salary increases-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

**Water Utility Fund**  
**An Enterprise Fund of the City of Norfolk, Virginia**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

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

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:

Asset Class	30-year 2019	Target
	Long-term Expected Real Rate of Return	Allocations
Private Core Real Estate	4.75%	7.50%
Master Limited Partnerships	6.50%	7.50%
Core Fixed Income	1.00%	30.0%
Core Plus Income	1.50%	0.00%
Equity (ACWI IMI)	5.15%	55.0%
		<u>100.00%</u>

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. Based on the assumptions, the Plan's fiduciary net position was projected to be available to make projected future payments and pay administrative expenses. Projected benefit payments are discounted at the long-term expected return of 7.00% (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 it is not available. The single equivalent rate 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 2020 of \$2,242,522 are included as deferred outflows. As of June 30, 2020, the Fund reported a net pension liability of \$18,210,252 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 5.80% as compared to 5.91% at June 30, 2018.

**Water Utility Fund**  
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**Note 8. Employees' Retirement System (ERS) (Continued)**

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, calculated 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	\$ 27,562,156	\$ 18,210,252	\$ 10,911,235

Pension expense and deferred inflows and outflows of resources related to the ERS Pension: Total Pension expense for the Fund is \$3,849,788. At June 30, 2020, deferred inflows (outflows) reported in the Fund's financial statements are as follows:

	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual experience	\$ 473,034
Change in assumptions	383,007
Net change in proportionate share	<u>276,787</u>
	<u><u>\$ 1,132,828</u></u>
	<u>Deferred Outflows of Resources</u>
Change in assumptions	\$ 1,281,887
Net difference between projected and actual earnings on plan investments	<u>619,681</u>
	<u><u>\$ 1,901,568</u></u>

Deferred outflows related to pension contributions made after the measurement date by the Fund of \$2,242,522 will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts related to deferred inflows (outflows) of resources will be recognized in pension expense as follows:

<u>Year</u>	<u>Amortization of Deferred Inflows (Outflows)</u>
2021	\$ 1,039,358
2022	(385,010)
2023	(107,014)
2024	<u>221,406</u>
	<u><u>\$ 768,740</u></u>

**Water Utility Fund**  
**An Enterprise Fund of the City of Norfolk, Virginia**  
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**Note 9. Significant Customers**

Billed and unbilled accounts receivable included the following amounts related to significant customers as of June 30, 2020:

	2020	% of Total Accounts Receivables
City of Virginia Beach	\$ 2,504,931	17%
United States Navy	927,761	6%
Chesapeake	778,656	5%
WTWA	338,766	2%
	<u>\$ 4,550,114</u>	

Net charges for services for the years ending June 30, 2020 include the following:

	2018	% of Total Charges for Service
City of Virginia Beach	\$ 27,712,201	30%
United States Navy	11,835,924	13%
Chesapeake	8,849,540	10%
WTWA	4,065,188	4%
	<u>\$ 52,462,853</u>	

**Note 10. Commitments and Contingencies**

Commitments for completion of capital projects authorized at June 30, 2020 were approximately \$21,026,331.

**Note 11. 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.

**Note 12. 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.

**Water Utility Fund**  
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**Note 13. 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 of Payroll
Remaining Amortization Period	30 years rolling
Asset valuation method	Not Applicable
Investment Rate of Return	3.50%
Rate of Salary Increases for Amortization	3.50%
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

**Water Utility Fund**  
**An Enterprise Fund of the City of Norfolk, Virginia**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

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**Note 13. Other Postemployment Benefits (OPEB) (Continued)**

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 \$2,135,740.

Changes to the total OPEB liability are as follows:

	2020
Beginning total OPEB liability	\$ 2,153,843
Service cost	233,910
Interest	84,836
Assumption changes	73,831
Change in proportionate share	(38,556)
Change in benefits	-
Contributions - employer	-
Benefit payments	(78,699)
Difference between expected and actual experience	(293,425)
Ending total OPEB liability	<u>\$ 2,135,740</u>

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	\$ 2,400,781	\$ 2,135,740	\$ 1,877,693

**Water Utility Fund**  
**An Enterprise Fund of the City of Norfolk, Virginia**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

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**Note 13. Other Postemployment Benefits (OPEB) (Continued)**

OPEB Expense and Deferred Inflows and Outflows of Resources: OPEB expense reported for the fiscal year ended June 30, 2020 for the Fund was \$218,876. 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:

	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 384,197
Net change in proportionate share	<u>35,344</u>
	<u>\$ 419,541</u>
	<u>Deferred Outflows of Resources</u>
Net change in assumptions	<u>\$ 281,303</u>

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 \$80,618 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:

<u>Year</u>	<u>Amortization of Deferred Inflows (Outflows)</u>
2021	\$ 19,253
2022	19,253
2023	19,253
2024	19,253
2025	24,349
Thereafter	<u>36,877</u>
	<u>\$ 138,238</u>

**Note 14. Accounting Pronouncements Issued but not yet Implemented**

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

- GASB Statement No. 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.



**Water Utility Fund**  
**An Enterprise Fund of the City of Norfolk, Virginia**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

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**Note 14. Accounting Pronouncements Issued but not yet Implemented (Continued)**

- 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 is 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
  - 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

**Water Utility Fund  
An Enterprise Fund of the City of Norfolk, Virginia  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2020**

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**Note 14.            Accounting Pronouncements Issued but not yet Implemented (Continued)**

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.

**Water Utility Fund**  
**An Enterprise Fund of the City of Norfolk, Virginia**  
**Required Supplementary Information**  
**For the Fiscal Year Ended June 30, 2020**

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

	2020	2019	2018
<b>Total OPEB liability</b>			
Service costs	\$ 233,910	\$ 146,915	\$ 156,970
Interest	84,836	69,675	51,437
Changes of proportionate share	(38,556)	(12,602)	-
Difference between expected and actual experience	(293,425)	(118,497)	(84,087)
Changes in assumptions	73,831	218,810	108,021
Benefits payments, including refunds of member contributions	(78,699)	(72,310)	(74,239)
<b>Net change in total OPEB liability</b>	(18,103)	231,991	158,102
<b>Total OPEB liability - beginning</b>	2,153,843	1,921,852	1,763,750
<b>Total OPEB liability - ending</b>	<u>\$ 2,135,740</u>	<u>\$ 2,153,843</u>	<u>\$ 1,921,852</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%	0.00%
Covered-employee payroll	\$ 11,492,947	\$ 11,774,650	\$ 11,715,856
Net OPEB liability as a percentage of covered employee payroll	18.58%	18.29%	16.40%

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

**Water Utility Fund  
An Enterprise Fund of the City of Norfolk, Virginia  
Required Supplementary Information  
For the Fiscal Year Ended June 30, 2020**

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

Fiscal Year	Actuarially Determined Required Contributions	Employer Contributions	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2020	\$ 2,243	\$ 2,243	\$ -	\$ 11,339	19.78%
2019	2,152	2,152	-	11,321	19.01%
2018	2,098	2,098	-	11,188	18.75%
2017	1,990	1,990	-	10,382	19.17%
2016	1,818	1,818	-	10,580	17.18%
2015	2,268	2,071	197	10,654	19.44%
2014	2,269	2,269	-	10,434	21.75%
2013	2,428	2,428	-	10,381	23.39%
2012	2,630	2,630	-	11,136	23.62%
2011	2,770	2,770	-	10,862	25.50%

\* 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.

**Water Utility Fund**  
**An Enterprise Fund of the City of Norfolk, Virginia**  
**Required Supplementary Information**  
**For the Fiscal Year Ended June 30, 2020**

**Water Utility Fund**  
**Schedule of Proportionate Share of the Net Pension Liability (unaudited)**  
**For the 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	5.80%	\$ 18,211	\$ 11,339	160.60%	77.56%
2019	5.91%	18,293	11,321	161.59%	77.65%
2018	5.95%	16,800	11,188	150.16%	78.71%
2017	5.91%	16,035	10,382	154.45%	78.22%
2016	5.93%	12,534	10,580	118.47%	82.74%
2015	5.80%	9,673	10,654	90.79%	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.

**Water 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 Ten Fiscal Years**

Fiscal Year	Revenue Available for Debt Service (1)	Operating Expenses Less Depreciation / Amortization and PILOT (2)	Income Available for Debt Service	Debt Service Principal	Interest	Total	Coverage
2011	83,737,444	37,068,753	46,668,691	9,875,000	16,527,844	26,402,844	1.77
2012	81,295,219	34,667,524	46,627,695	11,285,000	11,184,363	22,469,363	2.08
2013	80,091,220	34,810,702	45,280,518	7,000,000	14,700,777	21,700,777	2.09
2014	82,078,002	34,466,877	47,611,125	7,250,000	15,630,219	22,880,219	2.08
2015	85,490,793	33,940,277	51,550,516	7,805,000	13,905,866	21,710,866	2.37
2016	83,103,038	32,726,204	50,376,834	8,750,000	16,612,870	25,362,870	1.99
2017	86,970,065	37,735,743	49,234,322	10,090,000	15,988,725	26,078,725	1.89
2018	89,419,996	34,889,820	54,530,176	13,860,000	14,376,733	28,236,733	1.93
2019	115,557,713	36,530,929	79,026,784	14,200,000	15,858,467	30,058,467	2.63
2020	95,843,067	36,671,425	59,171,642	13,830,000	15,044,375	28,874,375	2.05

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 Water 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, 2019, 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Arlington, Virginia  
December 15, 2020