



# **Wastewater Utility Fund of the City of Norfolk, Virginia**

Financial and Compliance Report  
Year Ended June 30, 2011

# Wastewater Utility Fund of the City of Norfolk, Virginia

Financial and Compliance Report  
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## Contents

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Independent Auditors' Report	1 - 2
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Financial Statements	
Statements of Net Assets	3
Statements of Revenues, Expenses and Changes in Net Assets	4
Statements of Cash Flows	5 - 6
Notes to Financial Statements	7 - 17
Supplementary Schedule	18

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	19 - 20
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KPMG LLP  
Suite 1900  
440 Monticello Avenue  
Norfolk, VA 23510

## Independent Auditors' Report

The Honorable Members of the City Council  
Wastewater Utility Fund of the City of Norfolk, Virginia:

We have audited the accompanying statements of net assets of the Wastewater Utility Fund of the City of Norfolk, Virginia (the Fund), as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the City of Norfolk. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and Specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1 to the 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, where applicable, in conformity with U.S. generally accepted accounting principles.

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, 2011 and 2010, and changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The Fund has not presented Management's Discussion and Analysis that U.S. generally accepted accounting principles has determined is necessary to supplement, although not be a part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2011 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.



Our audits were made for the purpose of forming an opinion on the financial statements of the Fund, taken as a whole. The supplemental schedule is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects in relation to the financial statements taken as a whole.

KPMG LLP

December 13, 2011

Wastewater Utility Fund of the City of Norfolk, Virginia

*Statements of Net Assets*  
June 30, 2011 and 2010

	2011	2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 5,873,554	\$ 12,119,348
Unrestricted short term investments (Note 2)	7,337,687	-
Receivables:		
Accounts (net) (Note 3)	1,886,043	2,111,897
Unbilled accounts (Note 4)	1,105,598	1,056,632
Other receivables	53,550	65,450
Inventories	32,417	52,362
Internal balances	1,362	1,978,166
Restricted cash held in escrow (Note 2)	69,028	-
Investment restricted for construction (Note 2)	693,066	8,282,031
Total current assets	<u>17,052,305</u>	<u>25,665,886</u>
Capital Assets (Note 5):		
Non-depreciable assets	20,980,977	11,279,560
Depreciable assets	233,043,851	222,366,908
Accumulated depreciation and amortization	<u>(54,491,590)</u>	<u>(49,672,910)</u>
Total noncurrent assets	<u>199,533,238</u>	<u>183,973,558</u>
<b>Total assets</b>	<u>216,585,543</u>	<u>209,639,444</u>
<b>LIABILITIES</b>		
Current liabilities:		
Vouchers payable	282,204	199,832
Vouchers payable for CIP Projects	4,879,725	1,548,226
Contract retainage	551,452	364,438
Accrued interest	1,153,515	1,277,145
Accrued payroll	112,586	89,849
Payable to employee retirement system	739,000	613,351
Current portion of bonds payable (Note 6)	8,390,509	7,502,669
Compensated absences	157,969	216,523
Other liabilities	11,750	1,500
Total current liabilities	<u>16,278,710</u>	<u>11,813,533</u>
Noncurrent liabilities:		
General obligation bonds payable (Note 6)	91,282,973	98,382,026
Revenue bonds payable (Note 6)	22,443,584	17,059,873
Liability for other post employment benefits (OPEB) (Note 11)	425,777	296,835
Compensated absences	200,079	140,177
Total noncurrent liabilities	<u>114,352,413</u>	<u>115,878,911</u>
<b>Total liabilities</b>	<u>130,631,123</u>	<u>127,692,444</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	78,109,238	69,311,021
Unrestricted	7,845,182	12,635,979
Total net assets	<u>\$ 85,954,420</u>	<u>\$ 81,947,000</u>

See Notes to Financial Statements

Wastewater Utility Fund of the City of Norfolk, Virginia

*Statements of Revenues, Expenses and Changes in Net Assets*  
 Years Ended June 30, 2011 and 2010

	2011	2010
Operating revenues:		
Charges for services	\$ 24,362,092	\$ 23,814,509
Miscellaneous	494,525	270,616
<b>Total operating revenues</b>	<b>24,856,617</b>	<b>24,085,125</b>
Operating expenses:		
Personnel services	4,604,225	4,626,925
Plant operations	2,509,326	2,482,952
Chemicals	59,868	81,194
Provision for bad debts	223,640	113,541
Depreciation and amortization	4,818,680	4,633,079
Retirement contribution	739,000	613,351
OPEB expense	128,942	129,438
Administrative expenses	1,459,162	1,450,338
Other	1,765,728	1,785,126
<b>Total operating expenses</b>	<b>16,308,571</b>	<b>15,915,944</b>
<b>Operating income</b>	<b>8,548,046</b>	<b>8,169,181</b>
Nonoperating revenues (expenses):		
Interest income, net of interest capitalized	72	37,305
Intergovernmental revenues	357,582	65,450
Interest expense and fiscal charges, net of interest capitalized	(3,398,280)	(3,066,524)
Loss on sale or disposal of fixed assets	-	(49,475)
<b>Total nonoperating expenses, net</b>	<b>(3,040,626)</b>	<b>(3,013,244)</b>
<b>Income before contributions and transfers</b>	<b>5,507,420</b>	<b>5,155,937</b>
Transfers out	(1,500,000)	(1,500,000)
<b>Change in net assets</b>	<b>4,007,420</b>	<b>3,655,937</b>
Total net assets - beginning	81,947,000	78,291,063
Total net assets - end	<b>\$ 85,954,420</b>	<b>\$ 81,947,000</b>

See Notes to Financial Statements

Wastewater Utility Fund of the City of Norfolk, Virginia

*Statements of Cash Flows*

Years Ended June 30, 2011 and 2010

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 24,821,765	\$ 23,681,029
Payments to suppliers	(2,466,877)	(2,640,719)
Payments to employees	(5,193,491)	(5,146,404)
Other payments/receipts	(3,214,640)	(3,438,268)
Net cash provided by operating activities	<u>13,946,757</u>	<u>12,455,638</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Internal activity, payments from (to) other funds	1,976,804	(2,911,054)
Transfers out	(1,500,000)	(1,500,000)
Intergovernmental revenues	357,582	65,450
Net cash provided by (used in) noncapital financing activities	<u>834,386</u>	<u>(4,345,604)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from sale of debt	13,485,860	17,388,434
Purchases of capital assets	(16,859,847)	(12,225,057)
Principal paid on capital debt	(7,502,669)	(7,010,615)
Refunding of debt principal	(6,358,281)	-
Interest paid on capital debt	(3,974,322)	(3,048,446)
Net cash used in capital and related financing activities	<u>(21,209,259)</u>	<u>(4,895,684)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(6,609,667)	(17,383,963)
Proceeds from sale or maturity of investments	6,860,945	26,037,031
Interest and dividends	72	37,305
Net cash provided by investing activities	<u>251,350</u>	<u>8,690,373</u>
Net increase (decrease) in cash and cash equivalents	<u>(6,176,766)</u>	<u>11,904,723</u>
Cash and cash equivalents - beginning of year	<u>12,119,348</u>	<u>214,625</u>
Cash and cash equivalents - end of year	<u>\$ 5,942,582</u>	<u>\$ 12,119,348</u>

(Continued)

Wastewater Utility Fund of the City of Norfolk, Virginia

*Statements of Cash Flows (Continued)*

Years Ended June 30, 2011 and 2010

**Reconciliation of Operating Income to Net Cash**

**Provided by Operating Activities:**

Operating income	\$ 8,548,046	\$ 8,169,181
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for bad debts	223,640	113,541
Depreciation and amortization expense	4,818,680	4,633,079
Change in assets and liabilities:		
Accounts receivable (net), billed and unbilled	(34,852)	(404,096)
Inventories	19,945	(5,874)
Vouchers payable	82,372	(70,699)
Accrued payroll	149,734	93,872
Other liabilities	139,192	(73,366)
Net cash provided by operating activities	<u>\$ 13,946,757</u>	<u>\$ 12,455,638</u>

**Reconciliation of cash and cash equivalents to the Statement of Net Assets:**

Cash and cash equivalents	\$ 5,873,554	\$ 12,119,348
Restricted cash held in escrow	69,028	-
Total cash and cash equivalents per Statement of Net Assets	<u>\$ 5,942,582</u>	<u>\$ 12,119,348</u>

**Noncash investing, capital and financing activities:**

Loss on sale or disposal of capital assets	\$ -	\$ (49,475)
Acquisition of fixed assets through change in contract retainage	<u>\$ 187,014</u>	<u>\$ (315,758)</u>
Acquisition of fixed assets through change in vouchers payable	<u>\$ 3,331,499</u>	<u>\$ (1,180,972)</u>
Capitalized interest	<u>\$ 440,524</u>	<u>\$ 389,042</u>

See Notes to Financial Statements

Notes to Financial Statements

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**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 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.

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

Basis of accounting: The financial statements are presented on the accrual-basis of accounting, wherein revenues are 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. The Fund adopted Statement No. 20 of the Governmental Accounting Standards Board ("GASB"), *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Accordingly, the Fund has elected not to apply Statements and Interpretations issued by the Financial Accounting Standards Board after November 30, 1989.

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.

Investments of the Fund are stated at fair value. Short-term investments are recorded at cost, which approximates fair value. The fair value of the State Treasurer's Local Government Investment Pool (LGIP) is the same as the value of the pool shares. The LGIP is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The external investment pool is administered by the Treasury Board of Virginia. Other investments are stated at their fair value. Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the fiscal year. Investments that do not have an established market are reported at estimated fair value, primarily net asset value determined based on the fair value of the underlying securities. These investments are reported in the accompanying financial statements as cash and short-term investments, unless the original investment period exceeded one year, in which case they are reported as investments.

Accounts receivable: Accounts receivable are receivables 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 not collectible are written off upon such determination. Unbilled accounts, net, are estimated at each fiscal year end based on wastewater usage by customers for which billings have not been processed.

Inventories: Inventories are stated at the lower of cost (using the moving average method) or market.

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

Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2011

Notes to Financial Statements

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Capital assets: Capital assets are recorded at cost, less accumulated depreciation. 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.

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

	<u>Years</u>
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 from the accounts and any resulting gain or loss is reflected as nonoperating 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.

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.

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. 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.

Net assets: Net assets in the financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grants, contributions, laws and regulations of other governments or imposed by law through state statute.

Operating and nonoperating revenues: 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 nonoperating. 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.

Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2011

Notes to Financial Statements

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General allocations: The General Fund of the City provides administrative services to the Fund, which totaled \$1,529,362 and \$1,529,202 for the years ended June 30, 2011 and 2010, respectively. 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 \$114,521 for the years ended June 30, 2011 and 2010, respectively.

Bond premium or discount: Premium or discount on bonds is amortized, using the effective-interest method, over the life of the debt and is included in interest expense.

Deferred gain (loss) on advance refunding: Gain (loss) on advance refunding is amortized, using the effective-interest method, over the shorter of the life of the refunded bonds or the life of the new bonds.

Use of estimates: The preparation of financial statements 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.

**Note 2. Cash and Investments**

At June 30 2011 and 2010, the Fund's cash and investments consist of the following:

	2011	2010
Investment in LGIP	\$ 1	\$ 5,000,776
Other investments	8,030,753	8,282,031
Cash	5,942,581	7,118,572
	<u>\$ 13,973,335</u>	<u>\$ 20,401,379</u>
Cash and cash equivalents	\$ 5,873,554	\$ 12,119,348
Restricted cash held in escrow	69,028	-
Unrestricted short term investments	7,337,687	-
Investment restricted for construction	693,066	8,282,031
	<u>\$ 13,973,335</u>	<u>\$ 20,401,379</u>

Deposits: All cash of the Fund is 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.

Investments: 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, the African Development Bank, commercial paper rated A-1 by Standard and Poor's or P-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool, certain mutual funds, corporate notes, asset-backed securities, and savings accounts or time deposits.

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

Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2011

Notes to Financial Statements

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The Fund has \$1 and \$5,000,776 deposited in the State Treasurer's LGIP at June 30, 2011 and 2010, respectively, which has a Standard and Poor's rating of AAAM and is included in cash and cash equivalents.

The Fund's investments are considered to be mutual fund investment types and have a maturity of less than one year.

Investment Type	2011	2010
	Fair Value Less than 1 year	Fair Value Less than 1 year
SNAP Money Market Mutual Funds	\$ 8,030,746	\$ 8,011,295
PFM Funds Prime Series	7	270,736
	<u>\$ 8,030,753</u>	<u>\$ 8,282,031</u>

The Fund's rated investments, other than in LGIP, as of June 30, 2011 and 2010 were rated by Standard and Poor's and the ratings presented below using the Standard and Poor's rating scale.

Investment Type	Fiscal Year 2011	
	AAAM	Total
<b>Money Market Mutual Funds</b>		
SNAP Money Market Mutual Funds	\$ 8,030,746	\$ 8,030,746
PFM Funds Prime Series	7	7
<b>Total Money Market Mutual Funds</b>	<u>\$ 8,030,753</u>	<u>\$ 8,030,753</u>

Investment Type	Fiscal Year 2010	
	AAAM	Total
<b>Money Market Mutual Funds</b>		
SNAP Money Market Mutual Funds	\$ 8,011,295	\$ 8,011,295
PFM Funds Prime Series	270,736	270,736
<b>Total Money Market Mutual Funds</b>	<u>\$ 8,282,031</u>	<u>\$ 8,282,031</u>

The Fund has combined amounts restricted for capital projects and amounts for which the nature of the transaction generated a related liability with amounts available for general operating use in the financial statements for the Fund. These amounts are not available to meet obligations arising from the operating activities of the Fund. These amounts are restricted by covenant related to the general obligation bond issue and/or by the external source of the originating transaction.

Certain cash and investments of the Fund are combined with other City monies for investment purposes. These amounts were covered by federal depository insurance or collateralized in accordance with the Virginia Security for

Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2011

Notes to Financial Statements

Public Deposits Act. Reference should be made to the Comprehensive Annual Financial Report of the City for further cash and investment disclosures.

**Note 3. Accounts Receivable**

Accounts receivable at June 30, 2011 and 2010 are comprised of the following:

	2011	2010
Wastewater maintenance fees	\$ 3,000,284	\$ 3,141,790
Less allowance for uncollectible accounts	(1,114,241)	(1,029,893)
	<u>\$ 1,886,043</u>	<u>\$ 2,111,897</u>

**Note 4. Unbilled Accounts Receivable**

At June 30, 2011 and 2010, the Fund recognized \$1,105,598 and \$1,056,632 as unbilled accounts receivable related to unread meters. The associated revenue is included in net charges for services. These amounts were billed in July 2011 and July 2010, respectively.

**Note 5. Capital Assets**

Capital assets at June 30, 2011 and 2010 are comprised of the following:

	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011
<b>Nondepreciable assets:</b>				
Land	\$ 85,262	\$ -	\$ -	\$ 85,262
Construction-in-progress	11,194,298	20,051,488	(10,350,071)	20,895,715
Total nondepreciable assets	<u>11,279,560</u>	<u>20,051,488</u>	<u>(10,350,071)</u>	<u>20,980,977</u>
<b>Depreciable &amp; amortized assets:</b>				
Buildings	3,818,115	-	-	3,818,115
Equipment	218,456,315	10,676,943	-	229,133,258
Intangible assets	92,478	-	-	92,478
Total depreciable & amortized assets	<u>222,366,908</u>	<u>10,676,943</u>	<u>-</u>	<u>233,043,851</u>
<b>Less accumulated depreciation for</b>				
Buildings	(707,598)	(63,041)	-	(770,639)
Equipment	(48,956,854)	(4,737,154)	-	(53,694,008)
Intangible assets	(8,458)	(18,485)	-	(26,943)
Total accumulated depreciation	<u>(49,672,910)</u>	<u>(4,818,680)</u>	<u>-</u>	<u>(54,491,590)</u>
Total depreciable assets, net	172,693,998	5,858,263	-	178,552,261
Total capital assets, net	<u>\$ 183,973,558</u>	<u>\$ 25,909,751</u>	<u>\$ (10,350,071)</u>	<u>\$ 199,533,238</u>

Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2011

Notes to Financial Statements

	Balance		Balance	
	June 30, 2009	Additions	Retirements	June 30, 2010
Nondepreciable assets:				
Land	\$ 85,262	\$ -	\$ -	\$ 85,262
Construction-in-progress	17,752,193	10,784,659	(17,342,554)	11,194,298
Total nondepreciable assets	17,837,455	10,784,659	(17,342,554)	11,279,560
Depreciable & amortized assets:				
Buildings	3,818,115	-	-	3,818,115
Equipment	201,897,437	17,250,312	(691,434)	218,456,315
Intangible assets	-	92,478	-	92,478
Total depreciable & amortized assets	205,715,552	17,342,790	(691,434)	222,366,908
Less accumulated depreciation for				
Buildings	(644,557)	(63,041)	-	(707,598)
Equipment	(44,980,665)	(4,561,580)	585,391	(48,956,854)
Intangible assets	-	(8,458)	-	(8,458)
Total accumulated depreciation	(45,625,222)	(4,633,079)	585,391	(49,672,910)
Total depreciable assets, net	160,090,330	12,709,711	(106,043)	172,693,998
Total capital assets, net	\$ 177,927,785	\$ 23,494,370	\$ (17,448,597)	\$ 183,973,558

The Fund capitalized \$470,676 of interest expense and \$30,152 of interest income for the fiscal year ended June 30, 2011. For fiscal year ended June 30, 2010, the Fund capitalized \$399,742 of interest expense and \$10,700 of interest income. The total interest cost for 2011 and 2010 were \$3,868,956 and \$3,466,266, respectively.

**Note 6. Long-Term Obligations**

General obligation bonds: A summary of general obligation bond transactions for the fiscal years ended June 30, 2011 and 2010 follows:

	2011	2010
Beginning, July 1	\$ 103,468,981	\$ 97,682,627
Bonds retired/refunded	(13,010,950)	(6,585,615)
Bonds issued	6,867,368	12,371,969
Bonds outstanding at June 30	97,325,399	103,468,981
Unamortized discount/premium, net	1,123,083	1,565,714
General obligation bonds outstanding at June 30, adjusted for unamortized discount/premium	98,448,482	105,034,695
Less current portion	(7,165,509)	(6,652,669)
	\$ 91,282,973	\$ 98,382,026

Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2011

Notes to Financial Statements

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

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2011	2010
Series 2002 Capital Improvement	2/1/2002	27,000,000	2.00 - 5.00%	\$ 105,530	\$ 211,060
Series 2002 Refunding	2/1/2002	47,200,000	2.00 - 5.00%	1,527,374	2,556,097
Series 2002B Refunding	11/1/2002	39,890,000	4.00 - 5.25%	1,017,995	1,278,014
Series 2003 VRA	4/8/2003	10,000,000	3.50%	7,133,548	7,540,723
Series 2003 Capital Improvement	11/15/2003	57,110,000	3.00 - 5.00%	164,971	769,865
Series 2004 Refunding	3/1/2004	96,395,000	4.00 - 5.00%	3,769,718	4,763,358
Series 2004 VRA	9/17/2004	11,100,000	3.10%	9,094,805	9,564,693
Series 2005 Capital Improvement	3/16/2005	59,320,000	3.00 - 5.00%	871,878	1,580,000
Series 2005 Refunding	3/16/2005	35,035,000	3.00 - 5.00%	4,591,477	5,647,500
Series 2005 VRA	3/14/2006	11,500,000	3.00%	9,836,537	10,291,377
Series 2006 VRA	9/28/2006	14,250,000	-	12,112,500	12,825,000
Series 2006 Capital Improvement	11/15/2006	99,225,000	4.00 - 5.00%	7,999,500	8,914,500
Series 2006 Refunding	11/15/2006	15,830,000	4.00 - 5.00%	269,027	345,971
Series 2008 Capital Improvement	6/30/2008	26,230,118	4.70 - 5.00%	19,125,000	23,955,000
Series 2009 Refunding	5/21/2009	1,435,141	4.00 - 5.00%	1,047,489	1,435,141
Series 2010 Capital Improvement (A&B)	1/21/2010	11,790,682	1.75 - 5.96%	11,790,682	11,790,682
Series 2010 G Refunding	10/19/2010	6,867,368	4.04 - 5.96%	6,867,368	-
Wastewater Utility General Obligation Bonds outstanding				<u>\$ 97,325,399</u>	<u>\$ 103,468,981</u>

A summary of the requirements to amortize general obligation bonds outstanding at June 30, 2011 is as follows:

Year Ending June 30,	Principal	Interest
2012	\$ 7,165,509	\$ 3,586,557
2013	6,946,909	3,281,567
2014	6,040,085	2,947,892
2015	6,204,465	2,679,329
2016	6,031,697	2,464,174
2017-2021	27,409,607	9,538,137
2022-2026	27,554,491	4,936,318
2027-2031	9,972,636	851,111
	<u>\$ 97,325,399</u>	<u>\$ 30,285,085</u>

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 are pledged to the payment of the principal and interest on general obligation bonds.

Advanced Refunding: On October 19, 2010, the City sold \$90,165,000 of general obligation bonds which were used to defease \$10,380,000 of the City's Series 2002B General Obligation Bonds, \$28,550,000 of the City's Series 2003 General Obligation Bonds, \$20,950,000 of the City's Series 2005 General Obligation Bonds, \$7,650,000 of the City's Series 2006 General Obligation Bonds and \$23,135,000 of the City's Series 2008C General Obligation Bonds. The

Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2011

Notes to Financial Statements

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advance refunding will reduce the City's total debt service payments for bonds and result in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$3,320,406.

The Wastewater Utility Fund's portion of the \$90,165,000 General Obligation Refunding Bonds, Series 2010G was \$6,867,368. It was used to defease \$538,162 of the Wastewater's Series 2003 General Obligation Bonds, \$1,096,730 of Wastewater's Series 2005 General Obligation Bonds, \$735,374 of Wastewater's Series 2006 General Obligation Bonds and \$4,497,102 of Wastewater's Series 2008C General Obligation Bonds. All of the refunded bonds are considered to be defeased and the liability for those bonds has been removed.

Revenue bonds: A summary of revenue bond transactions for the fiscal years ended June 30, 2011 and 2010 is as follows:

	2011	2010
Beginning, July 1	\$ 17,959,167	\$ 13,567,438
Bonds retired/refunded	(850,000)	(425,000)
Bonds issued	6,618,492	4,816,729
Bonds outstanding at June 30	23,727,659	17,959,167
Unamortized discount/premium, net	(59,075)	(49,294)
Revenue bonds outstanding at June 30, adjusted for unamortized discount/premium	23,668,584	17,909,873
Less current portion	(1,225,000)	(850,000)
	<u>\$ 22,443,584</u>	<u>\$ 17,059,873</u>

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

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2011	2010
Series 2007 VRA	11/9/2007	\$ 17,000,000	-	\$ 15,725,000	\$ 16,575,000
Series 2009 VRA	11/17/2009	4,879,354	-	4,879,354	1,384,167
Series 2010 VRA	10/8/2010	3,123,305	-	3,123,305	-
Wastewater Utility Revenue Bonds outstanding				<u>\$ 23,727,659</u>	<u>\$ 17,959,167</u>

Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2011

Notes to Financial Statements

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A summary of the requirements to amortize revenue bonds outstanding at June 30, 2011 is as follows:

Year Ending June 30,	Principal
2012	\$ 1,225,000
2013	1,243,237
2014	1,243,237
2015	1,243,237
2016	1,243,237
2017-2021	6,216,185
2022-2026	6,216,185
2027-2031	4,941,171
2032	156,170
	<u>\$ 23,727,659</u>

Wastewater revenue bonds, Series 2007 VRA loan, Series 2009 VRA loan and Series 2010, are payable solely from the revenue of the Fund. The most restrictive covenant of the wastewater revenue bond requires that the Fund's net revenue available for debt service will equal at least 115% of the amount required during the fiscal year to pay the principal of the bond, the additional payments and all other indebtedness payable from revenues.

Bonds authorized and unissued as of June 30, 2011 and 2010 were \$24,785,748 and \$19,035,748, respectively.

**Note 7. Retirement Obligations**

The Fund contributes to the Employees' Retirement System of the City of Norfolk (the "System"), a single-employer noncontributory defined benefit plan, which is accounted for as a separate Pension Trust Fund. Reference should be made to the Comprehensive Annual Financial Report of the City for a further description of the plan. Retirement expense was \$739,000 and \$613,351 for the years ended June 30, 2011 and 2010, respectively.

**Note 8. Commitments**

Commitments for completion of capital projects authorized at June 30, 2011 and 2010 were \$16,689,872 and \$11,086,471, respectively.

**Note 9. Litigation**

From time-to-time, the Fund and the City are defendants 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 10. 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

Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2011

Notes to Financial Statements

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and officers' liability. The Fund's coverage is provided through the City's combination of purchased insurance policies and self-insurance plans.

**Note 11. Other Postemployment Benefits (OPEB)**

The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with GAAP wherein governments report on an accrual basis, benefit costs related to the period in which benefits are earned rather than to the period of benefit distribution. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The ARC as computed for the City is allocated to the Fund based on payroll.

The Fund and the City use the pay as you go method to calculate the OPEB liability for June 30, 2011 as the City has not funded a trust for the OPEB liability. Using the most recent OPEB plan valuation date of July 1, 2010, the following table shows the components of the Fund's annual OPEB costs projected for the current fiscal year, the amount contributed to the Plan and the changes in the net OPEB obligation:

	2011	2010
Net beginning OPEB obligation	\$ 296,835	\$ 167,397
Annual required contributions	170,700	202,214
Interest on net OPEB obligation	13,384	7,561
Adjustment to ARC	(12,428)	(5,979)
Annual OPEB cost	171,656	203,796
Less: contributions made	42,714	74,358
Increase in net OPEB obligation	128,942	129,438
Net ending OPEB obligation	<u>\$ 425,777</u>	<u>\$ 296,835</u>

The total unfunded actuarial accrued liability (UAAL) for 2011 and 2010 is \$1,293,359 and \$1,259,095, respectively, and is allocated to the Fund on the same basis as the ARC. The allocation is based on covered payroll and does not purport to represent the OPEB liability of the Fund on a stand-alone basis. Reference should be made to the Comprehensive Annual Financial Report of the City for further information.

**Note 12. Subsequent Event**

Wastewater System Revenue Bond, Series 2011: On October 21, 2011, the City issued a \$9,300,000 Wastewater System Revenue Bond, with the Virginia Resources Authority (VRA). In conjunction with the State Water Control Board, the VRA administers and manages the Virginia Water Facilities Revolving Fund. The Bond was sold at a true interest cost of 0.00%.

**Note 13. 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 Fund.

Notes to Financial Statements

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- GASB Statement 60: *Accounting and Reporting for Service Concession Arrangements*. GASB 60 addresses issues related to accounting for, financial reporting and disclosure requirements of certain service concession arrangements, which are a type of public-private partnership. The provisions of GASB 60 are effective for fiscal years beginning after December 15, 2011.
- GASB Statement 62: *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into GASB's authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989 from the following sources: FASB statements and interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA, so long as it does not contradict or conflict with GASB pronouncements. This statement also supersedes Statement No. 20: *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The provisions of GASB 62 are effective for fiscal years beginning after December 15, 2011.
- GASB Statement 63: *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. GASB 63 provides financial reporting guidance for deferred outflows and inflows of resources. These terms are defined as the consumption or acquisition of net assets by the government that is applicable to a future reporting period respectively. The provisions of GASB 62 are effective for fiscal years beginning after December 15, 2011.
- GASB Statement 64: *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, GASB 64 will clarify whether an effective hedging relationship will continue after the replacement of a swap counterparty or swap counterparty's credit support provider. The statement will also set forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of GASB 64 are effective for fiscal years beginning after June 15, 2011.

Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2011

Supplementary Schedule

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Fiscal Year	Revenue Available for Debt Service (1)	Operating Expenses Less Depreciation & Amortization (2)	Income Available for Debt Service	Debt Service			Coverage
				Principal	Interest	Total	
2010	\$ 24,122,430	\$ 11,282,865	\$ 12,839,565	\$ 425,000	\$ -	\$ 425,000	30.21
2011	\$ 24,856,689	\$ 11,489,891	\$ 13,366,798	\$ 850,000	\$ -	\$ 850,000	15.73

1. Includes operating revenue plus interest income, net of interest capitalized.

2. Includes operating expenses less depreciation and amortization.

(See accompanying independent auditor's report)



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

The Honorable Members of the City Council  
Wastewater Utility Fund of the City of Norfolk, Virginia;

We have audited the financial statements of the Wastewater Utility Fund of the City of Norfolk, Virginia (the Fund) as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated December 13, 2011. As discussed in note 1 to the financial statements, the accompanying financial statements present on 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, where applicable, in conformity with U.S. generally accepted accounting principles. Our report also discusses that the Fund has not presented a Management's Discussion and Analysis that U.S. generally accepted accounting principles has determined is necessary to supplement, although not required to be a part of, the financial statements. 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.

**Internal Control over Financial Reporting**

Management of the Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Fund's financial statements are free of 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*.

This report is intended solely for the information and use of Fund management, City Council, and others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

December 13, 2011