



Wastewater Utility Fund

An Enterprise Fund of the City of Norfolk, Virginia

**Financial and Compliance Report
Fiscal Year Ended June 30, 2014**

Wastewater Utility Fund
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Financial and Compliance Report

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Contents

Independent Auditors' Report	1 - 3
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Financial Statements	
Management's Discussion and Analysis (Unaudited)	4 - 7
Statement of Net Position	8 - 9
Statement of Revenues, Expenses and Changes in Net Position	10
Statement of Cash Flows	11 - 12
Notes to Financial Statements	13 - 24
Supplementary Schedules	25 - 26

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>	27 - 28
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KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying statement of net position of the Wastewater Utility Fund of the City of Norfolk, Virginia (the Fund), as of and for the year ended June 30, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, which collectively comprise the Fund's basic financial statements as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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, and the *Specifications for Audits of Counties, Cities and Towns* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Wastewater Utility Fund of the City of Norfolk, Virginia, as of June 30, 2014, and the respective changes in financial position, and cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

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 the U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

As discussed in note 1 to the basic financial statements, in fiscal year 2014, the Fund adopted new accounting guidance described in Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 4 through 7, the Supplemental Other Post-Employment Benefits (OPEB) Information – Schedule of Funding Progress on page 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming 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 Supplemental Debt Capacity Information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 January 29, 2015 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

KPMG LLP

Norfolk, Virginia
January 29, 2015

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

Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2014

The following discussion and analysis of the Wastewater 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, 2014.

Financial Highlights for the Fiscal year 2014

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).

- For the fiscal year ended June 30, 2014, the Fund has reported net operating revenues of \$27,409,238, which represents an increase of 6.5% from fiscal year 2013 net operating revenues.
- The Fund's total operating expenses for fiscal year 2014 were \$16,500,470, a decrease of \$287,558 from fiscal year 2013 operating expenses of \$16,778,028.
- Total net position of \$102,262,928, 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 \$88,270,787, restricted net position of \$97,439 and unrestricted net position of \$13,894,702 as of June 30, 2014.
- At the close of the fiscal year 2014, the Fund's total cash and short-term investments were \$24,049,100.
- For fiscal year ended June 30, 2014, the Fund had outstanding bonds payable of \$161,684,872. During the fiscal year 2014, the Fund was rewarded a \$10,000,000 Virginia Clean Water Revolving Loan at zero percent interest. The Fund issued a new general obligation (GO) bond of \$7,595,000 for capital improvement. The total revenue bonds payable increased \$7,521,633. Total amount of bonds retired/refunded was \$23,903,542 during the fiscal year 2014.
- For the fiscal year ended June 30, 2014, the Fund implemented GASB 65 *Items Previously Reported as Assets and Liabilities*, which required debt issuance cost to be treated as a period cost and expensed in the year incurred. The Fund had a restatement of the beginning net position of \$157,110 related to prior years' bonds issuance costs. The fiscal year 2013 comparative statements have not been restated for purposes of this management disclosure and analysis. As a result of this adoption, the Fund also reclassified a loss on debt refunding as a deferred outflow of resources of \$1,621,744 at July 1, 2013.

Basic Financial Statements

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.

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

Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2014

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, 2014 and for the year then ended.

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 2014 and 2013.

The following table provides a summary of the Fund's net position as of June 30, 2014 and 2013:

	2014	2013
Current assets	\$ 28,249,274	\$ 25,706,709
Capital assets	238,931,403	229,891,087
Deferred outflows of resources	2,533,742	-
Total assets and deferred outflows of resources	<u>\$ 269,714,419</u>	<u>\$ 255,597,796</u>
Current liabilities	\$ 15,186,670	\$ 15,656,963
Long-term liabilities	152,247,482	143,610,654
Deferred inflows of resources	17,339	-
Total liabilities and deferred inflows of resources	<u>\$ 167,451,491</u>	<u>\$ 159,267,617</u>
Net position:		
Net investment in capital assets	\$ 88,270,787	\$ 85,474,952
Restricted	97,439	-
Unrestricted	13,894,702	10,855,227
Total net position	<u>\$ 102,262,928</u>	<u>\$ 96,330,179</u>

Overall, for the fiscal year ended June 30, 2014, total net position increased approximately \$5.93 million, which was a result of an increase of \$6.09 million in net position and restatement of the beginning fund balance of \$157,110 for implementation of GASB 65.

The table below provides a summary of revenues, expenses and changes in net position for the years ended June 30, 2014 and 2013.

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

Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2014

	2014	2013
Operating revenues, net	\$ 27,409,238	\$ 25,744,908
Operating expenses	16,500,470	16,788,028
Operating income	<u>\$ 10,908,768</u>	<u>\$ 8,956,880</u>
Non-operating revenues	\$ 224,205	\$ 341,181
Non-operating expenses	(5,143,534)	(4,526,625)
Total non-operating expenses	<u>(4,919,329)</u>	<u>(4,185,444)</u>
Net income before contributions	5,989,439	4,771,436
Capital contributions	100,420	-
Change in net position	<u>\$ 6,089,859</u>	<u>\$ 4,771,436</u>
Net position - beginning, as previously reported	\$ 96,330,179	\$ 91,558,743
Effect of implementation of GASB 65	(157,110)	-
Net position - beginning, as restated	<u>96,173,069</u>	<u>91,558,743</u>
Total net position - end	<u><u>\$ 102,262,928</u></u>	<u><u>\$ 96,330,179</u></u>

The 2014 operating revenue increase is a result of the planned annual rate increase and are in line with the approved budgeted amount for the fiscal year ended June 30, 2014. Operating expenses decreased approximately 1.7% from the prior year due to gained efficiencies in operations.

Capital Assets

A summary of the Fund's net capital assets at June 30, 2014 and 2013 is as follows:

	2014	2013
Land	\$ 398,950	\$ 388,330
Buildings	2,848,177	2,919,154
Equipment	223,886,572	206,890,519
Intangible assets	28,514	28,514
Construction in progress	11,769,190	19,664,570
	<u>\$ 238,931,403</u>	<u>\$ 229,891,087</u>

The Fund's capital assets totaled \$238.9 million (net of accumulated depreciation) and accounted for 89% of total assets at June 30, 2014. Total increase in the Fund's net capital assets for fiscal year 2014 was \$9 million which is a result of completion of several pump station construction projects. During fiscal year 2014, major capital projects spending included designing and constructing pump stations and replacing sewer gravity and force mains.

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

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

Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2014

Debt Administration

For fiscal year 2014, the Fund had outstanding bonds payable of \$162 million. The City of Norfolk (the "City") manages debt in accordance with the City's debt policies. The Fund's general obligation bonds are backed by the full faith and credit of the City. The Fund's revenue bonds are secured by the revenue generated by the Fund's wastewater collection system. Bonds proceeds are used to finance capital projects that improve the City's wastewater collection system. A summary of the Fund's outstanding bonds as of June 30, 2014 and 2013 is as follows:

	2014	2013
Revenue bonds	\$ 48,954,628	\$ 43,308,801
General obligation bonds	112,730,244	108,732,572
Total	<u>\$ 161,684,872</u>	<u>\$ 152,041,373</u>

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

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

Future Outlook

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

Contacting the Fund's Financial Management

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

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

Statement of Net Position

June 30, 2014

	2014
Assets	
Current assets:	
Cash and short-term investments (Note 2)	\$ 15,295,046
Unrestricted short term investments (Note 2)	148,762
Receivables:	
Accounts (net) (Note 3)	2,786,909
Unbilled accounts (Note 4)	1,236,833
Other receivables	139,793
Inventories	36,639
Restricted cash held in escrow (Note 2)	97,439
Investments restricted for construction (Note 2)	8,507,853
Total current assets	28,249,274
Capital Assets (Note 5):	
Non-depreciable assets	12,168,140
Depreciable assets	296,417,377
Accumulated depreciation and amortization	(69,654,114)
Total noncurrent assets	238,931,403
Total assets	267,180,677
Deferred outflows of resources	
Loss on bonds refunding	2,533,742
Total assets and deferred outflows of resources	269,714,419
Liabilities	
Current liabilities:	
Vouchers payable	276,087
Vouchers payable for CIP Projects	1,805,585
Contract retainage	555,553
Due to Capital Project fund and other funds	18,881
Accrued interest	1,231,742
Accrued payroll	101,224
Payable to employee retirement system	669,099
Current portion of bonds payable (Note 6)	10,251,982
Compensated absences	186,309
Other liabilities	90,208
Total current liabilities	15,186,670

(Continued)

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

Statement of Net Position (Continued)

June 30, 2014

	<u>2014</u>
Noncurrent liabilities:	
General obligation bonds payable (Note 6)	104,968,262
Revenue bonds payable (Note 6)	46,464,628
Liability for other post employment benefits (OPEB) (Note 11)	642,236
Compensated absences	172,356
Total noncurrent liabilities	<u>152,247,482</u>
Total liabilities	<u>167,434,152</u>
Deferred inflows of resources	<u>17,339</u>
Gain on bonds refunding	
Total liabilities and deferred inflows of resources	<u>167,451,491</u>
Net position	
Net investment in capital assets	88,270,787
Restricted	97,439
Unrestricted	13,894,702
Total net position	<u><u>102,262,928</u></u>

See Notes to Financial Statements

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

Statement of Revenues, Expenses and Changes in Net Position
For Fiscal Year Ended June 30, 2014

	2014
Operating revenues:	
Charges for services, net	\$ 27,119,054
Miscellaneous	290,184
Total operating revenues	27,409,238
Operating expenses:	
Personnel services	4,958,468
Plant operations	2,274,390
Chemicals	35,096
Depreciation and amortization	5,580,685
Retirement contribution (Note 7)	669,099
OPEB expense (Note 11)	61,178
Administrative expenses	1,348,202
Other	1,573,352
Total operating expenses	16,500,470
Operating income	10,908,768
Nonoperating revenues (expenses):	
Interest income, net of interest capitalized	5,654
Intergovernmental revenues	218,551
Interest expense and fiscal charges, net of interest capitalized	(3,628,141)
Loss on sale or disposal of fixed assets	(15,393)
Payments to General Fund	(1,500,000)
Total nonoperating expenses, net	(4,919,329)
Income before contributions	5,989,439
Capital contributions	100,420
Change in net position	6,089,859
Net Position:	
Total net position - beginning, as previously reported	96,330,179
Adoption of GASB 65	(157,110)
Total net position - beginning, as restated	96,173,069
Total net position - end	\$ 102,262,928

See Notes to Financial Statements

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

Statement of Cash Flows

For Fiscal Year Ended June 30, 2014

	2014
Cash flows from operating activities:	
Receipts from customers	\$ 26,891,171
Payments to suppliers	(2,258,509)
Payments to employees	(5,684,780)
Other payments/receipts	(2,896,054)
Net cash provided by operating activities	16,051,828
Cash flows from noncapital financing activities:	
Internal activity, payments from other funds	18,881
Payments to General Fund	(1,500,000)
Intergovernmental revenues	218,551
Net cash (used in) noncapital financing activities	(1,262,568)
Cash flows from capital and related financing activities:	
Proceeds from sale of debt	29,763,989
Contributed capital	100,420
Purchases of capital assets	(16,364,394)
Principal paid on capital debt	(9,148,484)
Refunding of debt principal	(14,755,059)
Interest paid on capital debt	(2,372,514)
Net cash (used in) capital and related financing activities	(12,776,042)
Cash flows from investing activities:	
Purchase of investments	(15,807,767)
Proceeds from sale or maturity of investments	20,321,174
Interest and dividends	5,654
Net cash provided by investing activities	4,519,061
Net increase in cash and cash equivalents	6,532,279
Cash and short-term investments - beginning of year	8,762,767
Cash and short-term investments - end of year	\$ 15,295,046

(Continued)

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

Statement of Cash Flows (Continued)
For Fiscal Year Ended June 30, 2014

	2014
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating income	\$ 10,908,768
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	5,580,685
Change in assets and liabilities:	
Accounts receivable (net), billed and unbilled	(518,067)
Inventories	(5,626)
Vouchers payable	56,603
Accrued payroll	(57,213)
Other liabilities	86,678
Net cash provided by operating activities	\$ 16,051,828
 Noncash investing, capital and financing activities:	
Loss on sale or disposal of capital assets	\$ (15,393)
Acquisition of fixed assets through change in contract retainage	\$ (106,533)
Acquisition of fixed assets through change in vouchers payable	\$ (1,621,467)
Capitalized interest, net	\$ 361,078

See Notes to Financial Statements

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

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2014

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. These financial statements are those of the Fund and not of the City of Norfolk, Virginia as a whole.

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

Basis of accounting: The accounting policies of the Fund are based upon accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). 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.

New Accounting Standards Adopted: In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The Fund has adopted this Statement retrospectively in fiscal year 2014. In connection with the adoption of GASB Statement No. 65, the Fund's deferred loss on the refunding of debt has been reclassified from long-term liabilities to deferred outflows of resources on the statement of net position. In addition, bond issuance costs are expensed and no longer amortized annually. The effect of adoption of GASB 65 is the reduction of beginning net position by \$157,110.

Net Position:	2014
Total net position - beginning, as previously reported	\$ 96,330,179
Adoption of GASB 65	(157,110)
Total net position as restated	\$ 96,173,069

The new standard requires the disclosure of gain and loss on defeasance as deferred inflows and outflows. The reclassified amount for the Fund is \$1,621,744 at July 1, 2013.

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 estimated at 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

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

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2014

underlying securities. These investments are reported in the accompanying financial statements as cash and short-term investments, unless the original maturity exceeded one year, in which case they are reported as investments.

The City uses the pooled cash investment method, as a result 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 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.

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 net position on the Statement of Net Position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

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

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

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2014

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

General allocations: The General Fund of the City provides administrative services to the Fund, which totaled \$1,440,002 for the year ended June 30, 2014. 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 \$152,081 for the year ended June 30, 2014.

Bond premium, discounts and issuance costs: Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period incurred.

Loss or gain on bond refunding: In accordance with GASB 65, loss on bond refunding is reported as deferred outflows of resources and gain on 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 term of the debt.

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, 2014, the Fund's cash and investments consist of the following:

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

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2014

	2014
Investment in LGIP	\$ 1
Other investments	8,656,615
Cash and short-term investments	15,392,484
	\$ 24,049,100
Cash and cash equivalents	\$ 15,295,046
Restricted cash held in escrow	97,439
Unrestricted short term investments	148,762
Investment restricted for construction	8,507,853
	\$ 24,049,100

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. 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 qualified escrow agent, equal to or in excess of required collateral amounts, priced at a minimum of 105% to 130% of all public deposits held by the bank, based on rating determined under the Act; and therefore will not be assessed for losses of another bank that is in default or has become insolvent. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks. Both methods of securing public deposits are similar to depository insurance. Funds deposited in accordance with the Act are considered to be fully insured. The City’s primary banking institutions have elected to be governed by the Dedicated Method.

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.

Certain cash and investments of the Fund are combined with other City funds for investment purposes. These amounts are treated as cash because they have the same characteristics as a demand deposit account and are reflected as cash and short term investments in the accompanying statement of net position. These amounts are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act.

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

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2014

The Fund's investments are considered to be mutual fund investment types and have a maturity of less than one year. For the year ended June 30, 2014, the Fund's investments are categorized below to give an indication of the level of interest rate risk for the investment type by the entity at year-end.

Investment Type	Fair Value Less than 1 year
SNAP Money Market Mutual Funds	\$ 8,507,845
PFM Funds Prime Series	148,770
	\$ 8,656,615

The Fund's rated investments, other than in LGIP, as of June 30, 2014 were rated by Standard and Poor's and the ratings presented below using the Standard and Poor's rating scale.

Investment Type	AAA-m
Money Market Mutual Funds	
SNAP Money Market Mutual Funds	\$ 8,507,853
PFM Funds Prime Series	148,770
Total Money Market Mutual Funds	\$ 8,656,623

Note 3. Accounts Receivable

Accounts receivable at June 30, 2014 was comprised of the following:

	2014
Wastewater maintenance fees	\$ 3,495,145
Other	141,764
Less allowance for uncollectible accounts	(850,000)
	\$ 2,786,909

The Fund recorded \$123,613 of provision for bad debts which was offset against the operating revenue for the fiscal year ended June 30, 2014.

Note 4. Unbilled Accounts Receivable

At June 30, 2014, the Fund recognized \$1,236,833 as unbilled accounts receivable related to unread meters. The associated revenue is included in net charges for services. These amounts were billed in July 2014.

Note 5. Capital Assets

Capital assets at June 30, 2014 were comprised of the following:

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

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2014

	Balance June 30, 2013	Additions	Retirements / Transfers	Balance June 30, 2014
Nondepreciable assets:				
Land	\$ 388,330	\$ 10,620	\$ -	\$ 398,950
Construction-in-progress	19,664,570	13,852,282	(21,747,662)	11,769,190
Total nondepreciable assets	<u>20,052,900</u>	<u>13,862,902</u>	<u>(21,747,662)</u>	<u>12,168,140</u>
Depreciable & amortized assets:				
Buildings	3,818,115	-	-	3,818,115
Equipment	270,291,014	22,521,155	(305,385)	292,506,784
Intangible assets	92,478	-	-	92,478
Total depreciable & amortized assets	<u>274,201,607</u>	<u>22,521,155</u>	<u>(305,385)</u>	<u>296,417,377</u>
Less accumulated depreciation for				
Buildings	(898,961)	(70,977)	-	(969,938)
Equipment	(63,400,495)	(5,509,708)	289,991	(68,620,212)
Intangible assets	(63,964)	-	-	(63,964)
Total accumulated depreciation	<u>(64,363,420)</u>	<u>(5,580,685)</u>	<u>289,991</u>	<u>(69,654,114)</u>
Total depreciable assets, net	<u>209,838,187</u>	<u>16,940,470</u>	<u>(15,394)</u>	<u>226,763,263</u>
Total capital assets, net	<u>\$229,891,087</u>	<u>\$30,803,372</u>	<u>\$(21,763,056)</u>	<u>\$ 238,931,403</u>

The Fund capitalized \$390,850 of interest expense and \$29,772 of interest income for the fiscal year ended June 30, 2014. The total interest cost for fiscal year 2014 was \$4,018,991.

Note 6. Long-Term Obligations

General obligation bonds: A summary of general obligation bond transactions for the fiscal year ended June 30, 2014 is as follows:

	2014
Beginning, July 1	\$ 104,554,749
Bonds retired/refunded	(21,946,042)
Bonds issued	22,242,355
Bonds outstanding at June 30	<u>104,851,062</u>
Unamortized discount/premium, net	7,879,182
General obligation bonds outstanding at June 30, adjusted for unamortized discount/premium	112,730,244
Less current portion	(7,761,982)
	<u>\$ 104,968,262</u>

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

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

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2014

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2014
Series 2003 VRA	4/8/2003	9,423,794	2.00%	\$ 5,785,061
Series 2003 Capital Improvement	11/15/2003	69,375,000	3.63%	-
Series 2004 Refunding	3/1/2004	96,395,000	4.00 - 5.00%	-
Series 2004 VRA	9/17/2004	11,187,809	3.10%	7,595,216
Series 2005 Capital Improvement	3/16/2005	59,320,000	4.125 - 5.00%	380,923
Series 2005 Refunding	3/16/2005	35,035,000	4.125 - 5.00%	2,345,910
Series 2005 VRA	3/14/2006	11,500,000	2.25%	8,360,615
Series 2006 VRA	9/28/2006	14,250,000	none	9,975,000
Series 2006 Capital Improvement	11/15/2006	99,225,000	4.00 - 5.00%	977,090
Series 2006 Refunding	11/15/2006	15,830,000	4.00 - 5.00%	111,353
Series 2008 Capital Improvement	6/30/2008	153,605,000	4.70 - 5.00%	3,270,000
Series 2009 Refunding	5/21/2009	21,895,000	3.00 - 5.00%	530,647
Series 2010 Capital Improvement (A&B)	1/21/2010	11,790,682	1.75 - 5.96%	9,999,804
Series 2010 G Refunding	10/19/2010	6,867,368	4.00 - 5.00%	6,778,721
Series 2012 A Refunding	5/30/2012	82,179,384	2.00 - 5.00%	5,958,367
Series 2012 C Capital Improvement	6/28/2012	21,625,000	3.00 - 5.00%	20,540,000
Series 2013 A Capital Improvement	11/7/2013	7,595,000	2.00 - 5.00%	7,595,000
Series 2014 Refunding	4/2/2014	12,923,780	2.00 - 5.00%	12,923,780
Series 2014 A Refunding	6/2/2014	1,723,575	1.40%	1,723,575
Wastewater Utility General Obligation Bonds outstanding				<u>\$104,851,062</u>

A summary of the requirements to amortize general obligation bonds outstanding at June 30, 2014 is as follows:

Year Ending June 30,	Principal	Interest
2015	\$ 7,761,982	\$ 3,604,059
2016	7,356,839	3,478,009
2017	7,268,171	3,235,593
2018	6,914,614	2,892,761
2019	6,909,032	2,829,665
2020-2024	34,559,874	10,510,144
2025-2029	26,711,262	4,220,102
2030-2034	7,369,288	759,462
	<u>\$ 104,851,062</u>	<u>\$ 31,529,795</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.

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

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2014

General Obligation bonds – new and refunding

- General Obligation Capital Improvement and Refunding Bonds, Series 2013A

On November 7, 2013, the City issued \$83,695,000 of General Obligation Capital Improvement Bonds (Tax-Exempt) to fund the cash flow needs of the City's Capital Improvement Program. The Fund's portion of the \$83,695,000 General Obligation Capital Improvement Bonds, Series 2013A was \$7,595,000.

- General Obligation Forward Refunding Bonds, Series 2014A

On October 2, 2013, the City entered into a Bond Purchase and Loan Agreement with Banc of America Preferred Funding Corporation, under which the City has the ability to issue three separate bonds in the aggregate principal amount of \$37,960,000 (collectively, the "Forward Refunding Bonds") to currently refund its outstanding General Obligation Refunding Bonds, Series 2004, General Obligation Capital Improvement and Refunding Bonds, Series 2005 and General Obligation Capital Improvement and Refunding Bonds, Series 2006.

The first of the forward refundings was completed on June 2, 2014, which currently refunded the existing General Obligation Refunding Bonds, Series 2004. By executing the forward refunding, the City achieved \$526,194 in net present value savings.

The Fund's portion of the \$11,725,000 General Obligation Refunding Bonds, Series 2014A was \$1,723,575. It was used to defease \$1,720,059 of the Fund's Series 2004 General Obligation Bonds. The refunded bond is considered to be defeased and the liability for the bond has been removed.

As with the first two forward refundings, the City has the ability to terminate the Forward Refunding Agreement without issuing the final Forward Refunding Bonds, and Banc of America is not required to purchase any Forward Refunding Bond unless the City satisfies certain advance conditions specified in the Forward Refunding Agreement.

- General Obligation Refunding Bonds, Series 2014

On April 2, 2014, the City sold \$65,155,000 of General Obligation Refunding Bonds, Series 2014 that refinanced previously issued General Obligation Bonds and reduced the interest expense on the bonds. The City achieved a true interest cost (TIC) of 2.69% via negotiated sale, utilizing a syndicate led by Bank of America. The total net present value savings achieved was \$4,544,079.75 representing 6.79% of the original bond par amount.

The Fund's portion of the \$65,155,000 General Obligation Refunding Bonds, Series 2014 was \$12,923,780. It was used to defease \$13,035,000 of the Fund's General Obligation Capital Improvement Bonds, the Series 2008C. The refunded bond is considered to be defeased and the liability for the bond has been removed.

Revenue bonds: A summary of revenue bond transactions for the fiscal year ended June 30, 2014 is as follows:

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

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2014

	2014
Beginning, July 1	\$ 43,390,495
Bonds retired/refunded	(1,957,500)
Bonds issued	7,521,633
Bonds outstanding at June 30	48,954,628
Unamortized discount/premium, net	-
Revenue bonds outstanding at June 30, adjusted for unamortized discount/premium	48,954,628
Less current portion	(2,490,000)
	\$ 46,464,628

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

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2014
Series 2007 VRA	11/9/2007	\$ 17,000,000	-	\$ 13,175,000
Series 2009 VRA	11/17/2009	7,500,000	-	6,375,000
Series 2010 VRA	10/8/2010	10,000,000	-	9,000,000
Series 2011 VRA	10/21/2011	9,300,000	-	9,067,500
Series 2012 VRA	12/19/2012	9,410,187	-	9,410,187
Series 2013 VRA	12/12/2013	10,000,000	-	1,926,941
Wastewater Utility Revenue Bonds outstanding				\$ 48,954,628

A summary of the requirements to amortize revenue bonds outstanding at June 30, 2014 is as follows:

Year Ending June 30,	Principal
2015	\$ 2,490,000
2016	2,741,856
2017	2,741,856
2018	2,741,856
2019	2,741,856
2020-2024	13,709,280
2025-2029	13,709,280
2030-2034	7,526,780
2034-2035	551,864
	\$ 48,954,628

Wastewater revenue bonds, Series 2007 VRA loan, Series 2009 VRA loan, Series 2010 VRA loan, Series 2011 VRA loan, Series 2012 VRA loan and Series 2013 VRA loan 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.

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

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2014

On December 12, 2013, the City issued a \$10,000,000 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 and the Bond was sold at a true interest cost of 0%. As of June 30, 2014, \$1,926,942 had been drawn to pay for capital project expenses. Additional draws for project expenses of \$1,120,255 and \$4,474,436 from bond issuances in fiscal years 2012 and 2013 respectively, resulted in total VRA drawdowns of \$7,521,633 in fiscal year 2014.

Bonds authorized and unissued as of June 30, 2014 were \$11,890,748.

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. The System provides retirement benefits as well as death and disability benefits. All benefits vest after 5 years of creditable service. Cost-of-living adjustments ("COLAs") are provided at the discretion of the City Council. The System and its benefits are established by Section 37 of the Code of the City of Norfolk, Virginia as amended. All employees hired on or after October 5, 2010 contribute 5% of compensation to the benefit plan. Reference should be made to the Comprehensive Annual Financial Report of the City for a further description of the plan. Retirement expense was \$669,099 for the year ended June 30, 2014.

Note 8. Commitments and Contingencies

Commitment for completion of capital projects authorized at June 30, 2014 was \$13,859,513.

Note 9. 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 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' 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 provides post-retirement health care benefits, in accordance with state 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. Effective January 1, 2014, the City eliminated health care coverage for post 65 retirees (e.g. retirees eligible for Medicare).

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

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2014

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The actuarial valuation was performed as of July 1, 2013 with results projected for the fiscal year ended June 30, 2014.

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 costs 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, 2014 as the City has not funded a trust for the OPEB liability. Using the most recent OPEB plan valuation date of July 1, 2013, 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:

	2014	2013	2012
Net beginning OPEB obligation	\$ 581,058	\$ 542,079	\$ 425,777
Annual required contributions	108,537	130,390	175,829
Interest on net OPEB obligation	23,121	17,748	18,131
Adjustment to ARC	(21,470)	(17,494)	(16,836)
Annual OPEB cost	110,188	130,644	177,124
Less: contributions made	49,010	91,665	60,822
Increase in net OPEB obligation	61,178	38,979	116,302
Net ending OPEB obligation	<u>\$ 642,236</u>	<u>\$ 581,058</u>	<u>\$ 542,079</u>

The total unfunded actuarial accrued liability (UAAL) for 2014, 2013 and 2012 is \$1,074,814, \$1,172,960 and \$1,284,375 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 Events

- Forward General Obligation Refunding, Series 2014B

On October 1, 2014, the City issued \$9,915,000 General Obligation Refunding Bonds, Series 2014B. The Fund's portion of the \$9,915,000 General Obligation Refunding Bonds, Series 2014B was \$647,450. It was used to defease \$646,858 of the Fund's General Obligation Capital Improvement and Refunding Bonds, Series 2006. The refunded bond is considered to be defeased and the liability for the bond has been removed.

- General Obligation Refunding Bonds, Series 2014C:

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

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2014

On September 30, 2014, the City issued \$58,510,000 General Obligation Refunding Bonds, Series 2014C. The Fund's portion of the \$58,510,000 General Obligation Refunding Bonds, Series 2014C was \$7,981,932. It was used to defease \$7,560,000 of Wastewater's General Obligation Capital Improvement Bonds, the Series 2012C (Tax-Exempt). The refunded bond is considered to be defeased and the liability for the bond has been removed.

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.

GASB Statement 68: Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions. Governments providing defined benefit pensions will be required to recognize their long-term obligation for pension benefits as a liability and to recognize more pension expense immediately. The Statement also requires revised and new disclosures, and required supplementary information. It also requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014; however, earlier application is encouraged.

GASB Statement 69: Government Combinations and Disposals of Government Operations. This Statement provides specific accounting and financial reporting guidance for the combination and disposal of entities in a governmental environment. This Statement also enhances the disclosures around these types of activities to improve the usefulness of financial reporting in this area. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. Earlier application is encouraged.

GASB Statement 70: Accounting and Financial Reporting for Non-exchange Financial Guarantees. This Statement requires specific accounting for governments that extend a non-exchange financial guarantee as well as governments that have issued obligations guaranteed in non-exchange transactions. This Statement also specifies the information required to be disclosed in relation to these types of transactions. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. Earlier application is encouraged.

GASB Statement 71: Pension Transition for Contributions Made Subsequent to the Measurement Date. This statement will eliminate the source of a potentially significant understatement of restated beginning net position and expense in the first year of implementation of GASB 68 in the accrual-basis financial statements of employers and non-employer contributing entities. The provisions of this Statement should be applied with the implementation of GASB 68.

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

**Supplementary Schedules
For the Fiscal Year Ended June 30, 2014**

**Supplemental Other Post Employment Benefit (OPEB) Information
Schedule of Funding Progress
Wastewater Utility Fund
Last Three Fiscal Years
(Unaudited)**

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Estimated covered payroll (c)	UAA as a percentage of covered payroll (b-a)/c	
July 1, 2013	\$	-	\$ 1,074,814	\$ 1,074,814	0%	\$ 3,707,333	29.0%
July 1, 2012		-	1,172,960	1,172,960	0%	3,437,126	34.1%
July 1, 2011		-	1,284,375	1,284,375	0%	3,752,922	34.2%
July 1, 2010		-	1,293,359	1,293,359	0%	3,780,459	34.2%

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

Supplementary Schedules
For the Fiscal Year Ended June 30, 2014

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

Fiscal Year	Revenue	Operating Expenses	Income	Debt Service			Coverage
	Available for Debt Service (1)	Less Depreciation & Amortization (2)	Available for Debt Service	Principal	Interest	Total	
2010	\$ 24,122,430	\$ 11,168,344	\$ 12,954,086	\$ 425,000	\$ -	\$ 425,000	30.48
2011	24,856,689	11,375,370	13,481,319	850,000	-	850,000	15.86
2012	25,695,602	10,860,728	14,834,874	1,225,000	-	1,225,000	12.11
2013	25,898,789	11,541,897	14,356,892	1,725,000	-	1,725,000	8.32
2014	27,414,892	10,767,704	16,647,188	1,957,500	-	1,957,500	8.50

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).



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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
City of Norfolk, Virginia:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the Wastewater Utility Fund of the City of Norfolk, Virginia (the Fund), which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated January 29, 2015, which included a paragraph emphasizing that in fiscal year 2014, the Fund adopted new accounting guidance described in Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic 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 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.

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.

KPMG LLP

Norfolk, Virginia
January 29, 2015