

# **Wastewater Utility Fund**

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

## **Financial and Compliance Report** **Fiscal Year Ended June 30, 2017**

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

**Financial and Compliance Report**  
**June 30, 2017**

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KPMG LLP  
Suite 1900  
440 Monticello Avenue  
Norfolk, VA 23510

## Independent Auditors' Report

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Wastewater Utility Fund of the City of Norfolk, Virginia (the Fund), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 all 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 respective financial position of the Wastewater Utility Fund of the City of Norfolk, Virginia, as of June 30, 2017, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.



### *Emphasis of Matter*

As discussed in note 1 to the basic financial statements, the accompanying financial statements present only the Wastewater Utility Fund and do not purport to, and do not present fairly the financial position of the City of Norfolk, Virginia, the changes in its financial position or its cash flows, where applicable, in conformity with the U.S. generally accepted accounting principles.

### **Other Matters**

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 7, the schedule of funding in progress for Other Post-Employment Benefits Plans on page 30, schedule of contributions on page 31, and schedule of proportionate share of the net pension liability on page 32 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 opinions on the financial statements that collectively comprise the Fund's basic financial statements. The Supplemental Debt Capacity Information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplemental Debt Capacity Information are the responsibility of management and were 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 are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2017 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

**KPMG LLP**

Norfolk, Virginia  
December 15, 2017

**Wastewater Utility Fund**  
**An Enterprise Fund of the City of Norfolk**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Year Ended June 30, 2017**

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The following discussion and analysis of the Wastewater Utility Fund of the City of Norfolk's (the "Fund") financial performance provides an overview of the Fund's financial activities for the fiscal year ended June 30, 2017. The intent of the management discussion and analysis is to provide a summarized view of the Fund's financial performance and should be reviewed in conjunction with the basic financial statements and supporting notes for a complete understanding of the Fund's financial performance.

**Financial Highlights for the Fiscal Year 2017**

- For the fiscal year ended June 30, 2017, the Fund reported net operating revenues of \$29,240,091, an increase of 4.38% from fiscal year 2016 net operating revenues.
- The Fund's total operating expenses for fiscal year 2017 were 19,452,987, an increase of 16.43% from fiscal year 2016 operating expenses.
- Total net position was \$120,404,329 as of June 30, 2017 and was comprised of net investment in capital assets of \$103,005,079, restricted net position of \$67,130 and unrestricted net position of \$17,332,120. Total net position is defined as total assets and deferred outflows of resources less total liabilities and deferred inflows of resources.
- The Fund's total cash and investments as of June 30, 2017 were \$33,094,644.
- As of June 30, 2017, the Fund had outstanding general obligation and revenue bonds payable and unamortized bond premium of \$177,179,708. This was a 12.4% increase in the outstanding bonds payable as compared to June 30, 2016. During the fiscal year 2017, the Fund issued \$27,652,291 of new and refunding General Obligation bonds. During the fiscal year 2017, the Fund was awarded a \$6,500,000 Virginia Clean Water Revolving Loan at 0% interest. The total amount of revenue bonds issued under this program was \$5,332,547 during the fiscal year 2017. The total amounts of General Obligation and revenue bonds retired/refunded were \$14,072,107 and \$3,800,251, respectively, for the fiscal year 2017.

**Financial Statements Overview**

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

The statement of net position presents information on all Fund assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for those items that will result in cash flows in future fiscal periods.

The statement of cash flows, when taken together with the statement of net position and statement of revenues, expenses, and changes in net position, provides the reader a complete "snapshot" of the financial condition and results of operations of the Fund as of June 30, 2017 and for the year then ended.

**Wastewater Utility Fund**  
**An Enterprise Fund of the City of Norfolk**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Year Ended June 30, 2017**

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

**Financial Analysis**

The following financial analysis provides insight into the factors that had a significant impact on the variance between fiscal years 2017 and 2016.

	2017	2016
Current assets	\$ 37,254,661	\$ 17,642,825
Capital assets	266,307,283	261,039,033
Deferred outflows of resources	4,537,646	3,096,483
Total assets and deferred outflows of resources	\$ 308,099,590	\$ 281,778,341
Current liabilities	\$ 15,901,388	\$ 15,245,668
Long-term liabilities	171,527,010	151,577,903
Deferred inflows of resources	266,863	374,947
Total liabilities and deferred inflows of resources	\$ 187,695,261	\$ 167,198,518
Net position:		
Net investment in capital assets	\$ 103,005,079	\$ 105,948,343
Restricted	67,130	125,878
Unrestricted	17,332,120	8,505,602
Total net position	\$ 120,404,329	\$ 114,579,823

Overall, total net position increased by approximately \$5.82 million from fiscal year 2016. Net investment in capital assets were 85.55% of the total net position at June 30, 2017. Restricted resources were 0.06% of the net position. The remaining unrestricted resources of \$17,332,120 may be used to meet to the Fund's ongoing obligations to citizens and creditors.

**Wastewater Utility Fund**  
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**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Year Ended June 30, 2017**

The table below provides a summary of revenues, expenses and changes in net position for the years ended June 30, 2017 and 2016.

	2017	2016
Operating revenues, net	\$ 29,240,091	\$ 28,014,182
Operating expenses	19,452,987	16,707,522
Operating income	9,787,104	11,306,660
Non-operating revenues	162,318	192,078
Non-operating expenses	(4,124,916)	(4,047,255)
Total non-operating expenses	(3,962,598)	(3,855,177)
Change in net position	5,824,506	7,451,483
Net position - beginning, as previously reported	114,579,823	107,128,340
Total net position - end	\$ 120,404,329	\$ 114,579,823

For the fiscal year ending June 30, 2017, the Fund reported net revenue of \$29,402,409 and expenses of \$23,577,903, an increase in net position of \$5,824,506. The operating revenue increase of 4.38% from fiscal year 2016 is the result of expected increase in rates and in line with the approved budgeted amount for the fiscal year ended June 30, 2017. For fiscal year ending June 30, 2017, operating expenses increased by 16.43% from fiscal year 2016.

**Wastewater Utility Fund**  
**An Enterprise Fund of the City of Norfolk**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Year Ended June 30, 2017**

A summary of the Fund's net capital assets at June 30, 2017 and 2016 are as follows:

	2017	2016
Land	\$ 1,845,587	\$ 1,663,818
Buildings	7,921,802	5,926,589
Equipment	245,978,349	240,769,877
Construction in progress	10,561,545	12,678,749
	\$ 266,307,283	\$ 261,039,033

The Fund's capital assets totaled \$266,307,283 (net of accumulated depreciation) and account for 87.73% of total assets at June 30, 2017. The net capital assets increased by \$5,268,250 from fiscal year 2016, representing assets placed in service of \$11,735,448, less the depreciation and retirement of assets in the amount of \$6,467,198. During fiscal year 2017, major capital projects spending included designing and constructing pump stations and replacing sewer gravity and force mains.

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

**Debt Administration**

The City of Norfolk (the "City") manages debt in accordance with the City's debt policies. The Fund's general obligation bonds are backed by the full faith and credit of the City. The Fund's revenue bonds are secured by the revenue generated by the Fund's wastewater collection system. Bond proceeds are used to finance capital projects that improve the City's wastewater collection system. As of June 30, 2017, the Fund had outstanding general obligation and revenue bonds payable of \$177,179,708. A summary of the Fund's outstanding bonds as of June 30, 2017 and 2016 is as follows:

	2017	2016
Revenue bonds	\$ 63,015,048	\$ 61,170,943
General obligation bonds	114,164,660	96,464,872
Total	\$ 177,179,708	\$ 157,635,815

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

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

**Wastewater Utility Fund**  
**An Enterprise Fund of the City of Norfolk**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Year Ended June 30, 2017**

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**Future Outlook**

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

**Contacting the Fund's Financial Management**

This financial report is designed to provide our citizens, clients, and taxpayers with a general overview of the Fund's finances and to demonstrate the Fund's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be forwarded to the Director of Department of Utilities, 401 Monticello Avenue, Suite 200, Norfolk, Virginia 23510.

**Wastewater Utility Fund**  
**An Enterprise Fund of the City of Norfolk, VA**  
**Statement of Net Position**  
**June 30, 2017**

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**ASSETS**

Current assets:

Cash and short-term investments (Note 2)	\$	22,232,585
Restricted cash and short-term investments (Note 2)		10,794,929
Receivables (net)		
Accounts (Note 3)		3,042,878
Unbilled accounts (Note 4)		1,096,511
Due from other funds		450
Accrued investment income		467
Inventories		19,711
Restricted cash held in escrow (Note 2)		67,130
<b>Total current assets</b>		<b>37,254,661</b>

Non-current assets:

Capital assets (Note 5):		
Land and construction in progress		12,407,132
Buildings and equipment		341,783,002
Accumulated depreciation		(87,882,851)
Capital assets, net		266,307,283
<b>Total assets</b>		<b>303,561,944</b>

**Deferred outflows of resources**

Related to pensions (Note 7)		1,437,340
Loss on defeasance of bonds (Note 6)		3,100,306
<b>Total deferred outflows</b>		<b>4,537,646</b>

<b>Total assets and deferred outflows of resources</b>	<b>\$</b>	<b>308,099,590</b>
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**Wastewater Utility Fund**  
**An Enterprise Fund of the City of Norfolk, VA**  
**Statement of Net Position (Continued)**  
**June 30, 2017**

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**LIABILITIES**

Current liabilities:

Vouchers payable	\$	518,941
Vouchers payable for CIP Projects		2,007,806
Contract retainage		254,571
Due to other funds		289,782
Accrued interest		1,177,444
Accrued payroll		73,264
Current portion of bonds payable (Note 6)		11,287,328
Compensated absences		218,002
Other current liabilities		74,250
<b>Total current liabilities</b>		<b>15,901,388</b>

Non-current liabilities:

General obligation bonds payable (Note 6)		106,677,583
Revenue bonds payable (Note 6)		59,214,797
Net pension obligation (Note 7)		4,695,043
Compensated absences		157,401
Other post employment benefits (OPEB) (Note 11)		782,186
Total non-current liabilities		171,527,010
<b>Total liabilities</b>		<b>187,428,398</b>

**Deferred inflows of resources**

Related to pensions (Note 7)		249,133
Gain on defeasance of bonds (Note 6)		17,730
<b>Total deferred inflows of resources</b>		<b>266,863</b>

<b>Total liabilities and deferred inflows of resources</b>		<b>187,695,261</b>
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**NET POSITION**

Net investment in capital assets		103,005,079
Restricted		67,130
Unrestricted		17,332,120
<b>Total net position</b>	<b>\$</b>	<b>120,404,329</b>

See Notes to Financial Statements

**Wastewater Utility Fund**  
**An Enterprise Fund of the City of Norfolk, VA**  
**Statement of Revenue, Expenses and Changes in Net Position**  
**For the Year Ended June 30, 2017**

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**Operating Revenues:**

Charges for services, net	\$	29,064,512
Miscellaneous		175,579
<b>Total operating revenues, net</b>		<b>29,240,091</b>

**Operating Expenses:**

Personnel services		4,842,161
Plant operations		3,416,511
Chemicals		35,238
Depreciation and amortization (note 5)		6,464,418
Pension expense (Note 7)		589,424
OPEB expense (Note 11)		62,368
Administrative expenses		1,441,762
Other		2,601,105
<b>Total operating expenses</b>		<b>19,452,987</b>
<b>Operating Income</b>		<b>9,787,104</b>

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

Interest income, net of interest capitalized		6,568
Intergovernmental revenue		149,645
Interest expense and fiscal charges, net of interest capitalized		(2,614,821)
Gain (loss) on sale or disposal of capital assets		6,105
Payments to General Fund		(1,500,000)
Gain (loss) on investments (expense)		(10,095)
<b>Total non-operating expenses, net</b>		<b>(3,962,598)</b>
<b>Change in net position</b>		<b>5,824,506</b>

<b>Total net position - beginning</b>		114,579,823
<b>Total net position - ending</b>	\$	<b>120,404,329</b>

See Notes to Financial Statements

**Wastewater Utility Fund**  
**An Enterprise Fund of the City of Norfolk, VA**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2017**

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<b>Cash flows from operating activities:</b>	
Receipts from customers	\$ 29,725,008
Payments to suppliers	(3,185,171)
Payments to employees	(5,470,921)
Other payments	(3,997,367)
<b>Net cash provided by operating activities</b>	<u>17,071,549</u>
 <b>Cash flows from non-capital financing activities:</b>	
Internal activity, payments to other funds	277,501
Intergovernmental revenues	149,645
Payments to general fund	(1,500,000)
<b>Net cash used in non-capital activities</b>	<u>(1,072,854)</u>
 <b>Cash flows from capital and relating financing activities:</b>	
Proceeds from capital/refunding debt	32,984,838
Proceeds from sale of fixed assets	8,886
Purchases of capital assets	(12,296,941)
Principal paid on capital debt	(17,560,550)
Interest paid (net of bond premium and related costs)	976,558
<b>Net cash provided by capital and related financing activities</b>	<u>4,112,791</u>
 <b>Cash flows from investing activities:</b>	
Proceeds from sale of investments	19,779,706
Purchase of investments	(30,525,126)
Interest and dividends	7,919
<b>Net cash used in investing activities</b>	<u>(10,737,501)</u>
 Net increase in cash and cash equivalents	 9,373,985
 Cash and short-term investments - beginning of year	 <u>12,858,600</u>
 Cash and short-term investments - end of year	 <u>\$ 22,232,585</u>

**Wastewater Utility Fund**  
**An Enterprise Fund of the City of Norfolk, VA**  
**Statement of Cash Flows (Continued)**  
**For the Year Ended June 30, 2017**

**Reconciliation of Operating Income to Net Cash**

**Provided by operating activities:**

Operating income	\$ 9,787,104
Adjustments to reconcile operating income to net cash	
Provided by operating activities:	
Depreciation and amortization expense	6,464,418
Changes in assets and liabilities:	
Accounts receivable (net), billed and unbilled	484,917
Inventories	11,207
Vouchers payable	255,371
Accrued payroll	(34,920)
Net pension obligation	57,952
Other liabilities	45,500

**Net cash provided by operating activities** \$ 17,071,549

**Non-cash investing, capital, and financing activities:**

Unrealized loss on investments	<u><u>\$ (10,095)</u></u>
Gain / Loss on sale or disposal of capital assets	<u><u>\$ 6,105</u></u>
Acquisition of capital assets through change in contract retainage	<u><u>\$ (412,004)</u></u>
Acquisition of capital assets through change in vouchers payable	<u><u>\$ (149,488)</u></u>
Capitalized interest	<u><u>\$ 115,871</u></u>
Decrease in deferred inflows through change in pension obligation	<u><u>\$ (105,868)</u></u>

See Notes to Financial Statements

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

**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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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 collections, are accounted for in the Fund. Although separate financial statements have been presented for the Fund, it is also included in the City of Norfolk's Comprehensive Annual Financial Report as a major Enterprise Fund. These financial statements are those of the Fund and not of the City of Norfolk, Virginia as a whole.

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

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

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

Investment statutes authorize the Fund to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank) and Asian Development Bank, commercial paper rated A-1 by S & P Global Ratings or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, Virginia State Non-Arbitrage Program (SNAP) and the State Treasurer's Local Government Investment Pool (LGIP). SNAP and LGIP investments are valued at amortized costs and qualify as external investment pools per GASB 79, Certain External Investment Pools and Pool Participants. The LGIP and SNAP are not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintain a policy to operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

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

The majority of the Fund's cash and short-term investments are pooled with the City. The City uses the pooled cash investment method, under which income from the investment of pooled cash is allocated to the various funds based on the percentage of cash and temporary investments of each fund to the total pooled cash and temporary investments. For purposes of the statement of cash flows, all highly liquid debt instruments with a maturity of 90 days or less and certificates of deposit are grouped into cash and short-term investments. The cash and investment pool discussed above is considered cash, since it has the same characteristics as a demand account.

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

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

**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

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 uncollectible are written off upon such determination and approval of the City Council. Unbilled accounts, net, are estimated at each fiscal year end based on wastewater usage by customers for which billings have not been processed.

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

Inventories: Inventories are stated at cost using the moving average method. The Fund expenses inventories when consumed.

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

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

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

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

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

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

Interest costs incurred on funds borrowed for construction projects are capitalized, net of interest earned on the temporary investment of the unexpended portion of those funds.

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

**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

The Fund evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the Fund are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the Fund are measured using the method that best reflects the diminished service utility of the capital asset. Any insurance recoveries received as a result of impairment events or changes in circumstances resulting in the impairment of a capital asset are netted against the impairment loss. No impairment of assets was recorded in 2017.

Compensated absences: It is the Fund's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation leave is fully vested when earned by Fund employees. Accumulated vacation leave cannot exceed certain limits as codified in Section 2-49 in the City Code of Ordinances. Sick leave does not vest for Fund employees; however, upon retirement, Fund employees receive credit for each day of accumulated sick leave toward their pension benefit. There is no liability for unpaid accrued sick leave service since the Fund does not pay it when the employee separates from service. The additional retirement benefit is included in the Fund's pension liability.

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

Operating and non-operating revenues: The Fund reports as operating revenues all charges for services generated through service fees and certain other miscellaneous revenues. Other revenues, including interest revenue and grants, are reported as non-operating.

General allocations: The General Fund of the City provides administrative services to the Fund, which totaled \$1,533,562 for the year ended June 30, 2017. 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 \$162,448 for the year ended June 30, 2017.

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

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

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

**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

Estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Pension plan: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position and the additions and deductions there to, of the City of Norfolk Employees' Retirement Plan (ERS) have been determined on the same basis as they were reported by the respective plan. With the exception of deferred outflows related to employer contributions made after the measurement date, deferred inflows and outflows are amortized over a closed five-year period or the average remaining service life of the effected employees. Deferred outflows of resources related to employer contributions made after the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The allocation of proportionate shares of the ERS net pension liability and other pension amounts to participating funds is based on employer contributions.

**Note 2. Deposits and Investments**

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

The Pooled Method also provides that if any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of participating governmental entities. If the value of the pool's collateral were inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to members of the pool. Under the Dedicated Method, Qualified Public Depositories are responsible for securing their own public deposits, by the pledge and deposit of eligible collateral with a qualified escrow agent, equal to or in excess of required collateral amounts, priced at a minimum of 105 percent to 130 percent of all public deposits held by the bank, based on rating determined under the Act; and therefore will not be assessed for losses of another bank that is in default or has become insolvent.

The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks. Both methods of securing public deposits are similar to depository insurance. Funds deposited in accordance with the Act are considered to be fully insured. The City's primary banking institution has elected to be governed by the Dedicated Method.

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

**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**Note 2. Deposits and Investments (Continued)**

Custodial credit risk – investments: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Fund has no formal policy regarding custodial credit risk for investments.

At June 30, 2017, the Fund’s cash and investments consisted of the following:

	2017
Cash, including pooled cash with City	22,299,715
External investment pools	10,794,929
	\$ 33,094,644
Cash and short-term investments	22,232,585
Restricted short-term investments	10,794,929
Restricted cash held in escrow	67,130
	\$ 33,094,644

Credit risk related to issuer: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Fund’s fixed income investments as of June 30, 2017 were rated by Standard and Poor’s and the ratings are presented below using the Standard and Poor’s rating scale.

Investment Type	A-1	AA+	AAAm	Total
SNAP US Agency Notes	\$ -	\$ 2,181,474	\$ -	\$ 2,181,474
SNAP Commercial Paper and Certificate of Deposit	6,066,840	-	-	6,066,840
SNAP Money Market Fund	-	-	2,546,477	2,546,477
PFM Fund Government Series	-	-	137	137
LGIP	-	-	1	1
Total	\$ 6,066,840	\$ 2,181,474	\$ 2,546,615	\$ 10,794,929

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

**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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**Note 2. Deposits and Investments (Continued)**

Fair Value Measurement: The Fund discloses the fair values of its investments in a hierarchy that prioritized the inputs to valuation techniques used to measure fair value. GAAP requires that investments be measured and reported at fair market value and the disclosure of inputs used in the valuation process. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (level 3 measurements). The guidance established three levels of the fair value hierarchy as follows:

- Level 1 — Quoted prices in active markets for identical assets. Equity securities are priced using an exchange traded price or a broker quote in an active market.
- Level 2 — Inputs other than quoted prices that are observable for the asset, including quoted prices for similar investments based on interest rates, credit risk and alike factors. The United States treasury and fixed income securities are priced using pricing models based on a compilation of primarily observable market information or a broker quote in a non-active market for an identical or similar security. The certificate of deposit is valued based on discounted cash flows using current interest rates at the stated maturity. The short term investment trades daily without restriction at \$100 per unit.
- Level 3 — Unobservable inputs for the assets, including the fund's own assumptions for determining fair value.

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

External investment pools include the PFM, LGIP and SNAP investments held in the city treasury. These investments are reported at amortized cost in accordance with Rule 2a7, and qualify as external investment pools per GASB 79, *Certain External Investment Pools and Pool Participants*. Because they are not carried at fair value, they have not been assigned a value. The Fund's investments in external investment pools at June 30, 2017 are reflected above in this note.

**Note 3. Accounts Receivable**

Accounts receivable at June 30, 2017 are comprised of the following:

	2017
Wastewater maintenance fees	\$ 3,909,190
Other	33,688
Less allowance for uncollectible accounts	(900,000)
	<u>\$ 3,042,878</u>

The Fund recorded \$198,421 of bad debt expense which was offset against the operating revenue for the fiscal year ended June 30, 2017.

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

**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**Note 4. Unbilled Accounts Receivable**

At June 30, 2017, the Fund recorded \$1,096,511 as unbilled accounts receivable related to unread meters. The associated revenue is included in net charges for services. These amounts were billed in July 2017.

**Note 5. Capital Assets**

Capital assets at June 30, 2017 were comprised of the following:

	Balance June 30, 2016	Additions	Retirements / Transfers	Balance June 30, 2017
Non-depreciable assets:				
Land	\$ 1,663,818	\$ 181,769	\$ -	\$ 1,845,587
Construction-in-progress	12,678,749	12,744,711	(14,861,915)	10,561,545
<b>Total non-depreciable assets</b>	<b>\$ 14,342,567</b>	<b>\$ 12,926,480</b>	<b>\$(14,861,915)</b>	<b>\$ 12,407,132</b>
Depreciable & amortized assets:				
Buildings	\$ 7,062,779	\$ 2,113,320	\$ -	\$ 9,176,099
Equipment	321,072,242	11,557,563	(115,380)	332,514,425
Intangible assets	92,478	-	-	92,478
<b>Total depreciable &amp; amortized assets</b>	<b>\$ 328,227,499</b>	<b>\$ 13,670,883</b>	<b>\$ (115,380)</b>	<b>\$ 341,783,002</b>
Less accumulated depreciation for				
Buildings	\$ (1,136,190)	\$ (118,107)	\$ -	\$ (1,254,297)
Equipment	(80,302,365)	(6,346,311)	112,600	(86,536,076)
Intangible assets	(92,478)	-	-	(92,478)
<b>Total accumulated depreciation</b>	<b>\$ (81,531,033)</b>	<b>\$(6,464,418)</b>	<b>\$ 112,600</b>	<b>\$ (87,882,851)</b>
Total depreciable assets, net	\$ 246,696,466	\$ 7,206,465	\$ (2,780)	\$ 253,900,151
<b>Total capital assets, net</b>	<b>\$ 261,039,033</b>	<b>\$20,132,945</b>	<b>\$(14,864,695)</b>	<b>\$ 266,307,283</b>

The Fund recorded \$115,871 of capitalized interest which consisted of \$194,750 interest expense and \$78,879 of interest income for the year ending June 30, 2017.

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

**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**Note 6. Long-Term Obligations**

General obligation bonds: A summary of general obligation bond transactions for the fiscal year ended June 30, 2017 is as follows:

	2017
Beginning, July 1	\$ 90,256,596
Bonds retired	(14,072,107)
Bonds issued	27,652,291
Bonds outstanding at June 30	103,836,780
Unamortized discount/premium, net	10,327,880
General obligation bonds outstanding at June 30, adjusted for unamortized discount/premium	114,164,660
Less current portion	(7,487,077)
	\$ 106,677,583

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

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2017
Series 2003 VRA	4/8/2003	\$ 9,423,794	2.00%	\$ 4,253,606
Series 2004 VRA	9/17/2004	11,187,809	3.10%	5,950,648
Series 2005 VRA	3/14/2006	11,500,000	2.25%	6,714,564
Series 2006 VRA	9/28/2006	14,250,000	0.00%	7,837,500
Series 2009 A & B Refunding	5/21/2009	21,895,000	4.00 - 5.00%	195,817
Series 2010B Capital Improvement	1/21/2010	11,790,682	4.40 - 5.96%	8,220,476
Series 2010 G Refunding	10/19/2010	6,867,368	4.00 - 5.00%	5,704,993
Series 2012 A Refunding	5/30/2012	82,179,384	2.00 - 5.00%	5,399,673
Series 2012 C Capital Improvement	6/28/2012	21,625,000	4.00 - 5.00%	4,325,000
Series 2013 A Capital Improvement	11/7/2013	7,595,000	4.00 - 5.00%	4,930,000
Series 2014 Refunding	4/2/2014	12,923,780	2.00 - 5.00%	12,923,780
Series 2014B Refunding	10/1/2014	647,450	3.29%	582,150
Series 2014C Refunding	9/30/2014	8,023,133	2.00 - 5.00%	7,837,053
Series 2015 Refunding	3/2/2015	1,826,208	3.32%	1,309,230
Series 2016A Refunding	10/9/2016	20,495,000	2.00 - 5.00%	20,495,000
Series 2016B Refunding	10/9/2016	7,157,290	4.00 - 5.00%	7,157,290
				\$ 103,836,780

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

**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**Note 6. Long-Term Obligations (Continued)**

A summary of the requirements to amortize general obligation bonds outstanding at June 30, 2017 is as follows:

Year Ending June 30, 2017	Principal	Interest
2018	\$ 7,487,077	\$ 3,781,323
2019	7,614,978	3,704,926
2020	7,534,029	3,477,570
2021	7,824,874	3,035,730
2022	7,851,392	2,825,791
2023-2027	37,624,850	9,854,593
2028-2032	16,008,422	4,555,432
2033-2037	5,091,158	2,309,942
2038-2042	3,400,000	1,275,000
2043-2047	3,400,000	425,000
	\$ 103,836,780	\$ 35,245,307

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

General Obligation Bonds - new and refunding

The deferred outflow on new debt for the fiscal year ending June 30, 2017 was \$801,015. The deferred outflow amortization for loss on refunding of bonds recorded for fiscal year 2017 was \$264,925. The deferred inflow amortization for gain on refunding of bonds was \$2,216 for fiscal year 2017. As of June 30, 2017, the total deferred inflows and outflows for bond refunding were \$17,730 and \$3,100,306, respectively.

Revenue bonds: A summary of revenue bond transactions for the fiscal year ended June 30, 2017 is as follows:

	2017
Beginning, July 1	\$ 61,170,944
Bonds retired	(3,488,443)
Bonds issued	5,332,547
Bonds outstanding at June 30	63,015,048
Less current portion	(3,800,251)
	\$ 59,214,797

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

**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**Note 6. Long-Term Obligations (Continued)**

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

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2017
Series 2007 VRA	11/9/2007	\$ 17,000,000	-	\$ 10,625,000
Series 2009 VRA	11/17/2009	7,500,000	-	5,250,000
Series 2010 VRA	10/8/2010	10,000,000	-	7,500,000
Series 2011 VRA	10/21/2011	9,300,000	-	7,672,500
Series 2012 VRA	12/19/2012	11,609,355	-	10,149,421
Series 2013 VRA	12/12/2013	10,000,000	-	9,250,000
Series 2015 VRA	3/2/2015	10,000,000	-	8,520,573
Series 2016 VRA	4/21/2016	6,000,000	-	3,733,261
Series 2017 VRA	5/31/2017	6,500,000	-	314,293
Total Revenue Bonds outstanding				\$ 63,015,048

A summary of the requirements to amortize revenue bonds outstanding at June 30, 2017 is as follows:

Year Ending June 30,	Principal
2018	\$ 3,800,251
2019	3,901,440
2020	3,909,297
2021	3,909,297
2022	3,909,297
2023-2027	19,546,486
2028-2032	17,046,485
2033-2037	6,875,592
2038-2042	116,903
	\$ 63,015,048

Wastewater revenue bonds are payable solely from the revenue of the Fund. The Wastewater Revenue Bond covenants require that each year's Wastewater Utility fund net revenue will equal at least 1.15 times the amount required during the fiscal year to pay the principal of the Wastewater Revenue Bond, the additional payments and all other indebtedness of the borrower payable from revenues, including without limitation, indebtedness under leases that are treated as capital leases under GAAP, but excluding any general obligation bonds issued to finance wastewater system property. These resources are classified as restricted investments on the Statement of Net Position because their use is limited by applicable bond covenants.

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

**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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**Note 6. Long-Term Obligations (Continued)**

As of June 30, 2017, draws for project expenses of \$1,314,672, \$3,703,582 and \$314,293 from bond issuances in fiscal years 2015, 2016 and 2017, respectively, resulted in total VRA drawdowns of \$5,332,547 for fiscal year 2017. On May 31, 2017, the City issued a \$6,500,000 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%.

Bonds authorized and unissued as of June 30, 2017 were \$18,390,748.

**Note 7. Employees' Retirement System (ERS)**

Plan description: The ERS is the administrator of a single-employer contributory, defined benefit plan (the Plan) that covers substantially all employees of the City, excluding School Board employees and Constitutional Officers' employees who are covered by the Virginia Retirement System (VRS). The ERS provides retirement benefits, as well as death and disability benefits. Cost-of-living adjustments ("COLAs") are not required, are not regularly instituted and are available solely at the discretion of the City Council. The ERS and its benefits are established by Section 37 of the Code of the City of Norfolk, Virginia, as amended. ERS pension expenses and liabilities are allocated based on the employer's contribution to the Plan.

Plan benefits: The ERS provides retirement benefits, as well as death and disability benefits. All benefits vest after five years of creditable service. Employee eligibility requirements are as follows:

Retirement (for employees who became members prior to July 1, 1980): Normal retirement is the earlier of age 60 or after completion of 30 years of credited service. The normal service retirement benefit per annum is equal to 2.00% of average final compensation (average of the three highest years of compensation) times years of creditable service, with service limited to 35 years.

Retirement (for employees who became members on or after July 1, 1980): Normal retirement is the earlier of age 60 or after completion of 30 years of credited service. The normal service retirement benefit per annum is equal to 1.75% of average final compensation times years of creditable service, with service limited to 35 years. There is no mandatory retirement age.

Effective December 13, 2011, all employees hired on or after December 2011 are required to meet the vesting requirement of five years in order to be eligible to receive benefits under the Plan.

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

**Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2017**

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**Note 7. Employees' Retirement System (ERS) (Continued)**

Contributions: Section 37 of the Code of the City of Norfolk, Virginia, established the authority under which the City's obligation to contribute to the Plan is determined. Contribution requirements are actuarially determined at the end of each fiscal year and paid by the City in the ensuing year. Effective January 8, 2015, all Plan members pay contribution on a salary reduction basis in the amount of 5.00% of earnable compensation, with the exception of City Council members hired before October 5, 2010. Total employer contributions made by the Fund to the ERS plan were \$593,840 for the year ended June 30, 2017. These contributions combined with employee contributions of \$177,687 for the year ended June 30, 2017 were expected to cover the actuarially determined contributions.

Actuarial assumptions: The actuarial assumptions are based on the presumption that the ERS will continue indefinitely. Were the ERS to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial accrued liability.

For the June 30, 2016 actuarial valuation, the actuarial assumptions include the following:

Actuarial cost method:	Entry Age Normal Cost Method
Amortization method:	Level percent closed, 20-year layers
Amortization growth rate:	3.00%
Asset valuation method:	3-year Smoothed Value
Inflation rate:	3.00%
Salary increase-General Employees:	Average annual salary increases of 5.64% over a 30-year career; based on rates that vary by years of service and are compounded annually
Investment rate of return:	7.07%
Mortality:	RP-2000 Combined Healthy Mortality projected to 2010 by Scale AA for health lives RP-2000 Disabled Mortality projected to 2010 by Scale AA for disable lives

The long-term expected rate of return on the ERS investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the following table:

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

**Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2017**

**Note 7. Employees' Retirement System (ERS) (Continued)**

Asset Class	30-year Long-term Expected Real Rate of Return	Target Allocations
Private Core Real Estate	4.75%	7.5%
Master Limited Partnerships	6.50%	7.5%
Core Fixed Income	1.00%	30.0%
Core Plus Income	1.50%	0.0%
Equity (ACWI IMI)	5.15%	55.0%
		100.00%

Discount rate: The discount rate used to measure the total pension liability was 7.07%. The projection of cash flows used to determine the discount rate assumed that Plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The GASB 67 depletion schedule, as prepared by the actuary based on those assumptions was presented for 99 years. The projected benefit payments ended by fiscal year end 2099 and the pension plan's fiduciary net position was projected to be available to make projected future payments and pay administrative expenses until fiscal year 2075. Projected benefit payments are discounted at the long-term expected return of 7.07% (net of investment expenses) to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 2.85% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of the measurement date of June 30, 2016 was 7.07%.

Net Pension Liability: The net pension liability was measured as of June 30, 2016 with an actuarial valuation date of June 30, 2016. Pension expense and liability are allocated to governmental and enterprise funds based on the actual employer contributions. The employer contributions made in fiscal year 2017 of \$593,840 are included as deferred outflows. As of June 30, 2017, the Fund reported a net pension liability of \$4,695,043 for its proportionate share of the collective net pension liability of the ERS plan. The net pension liability is allocated based on employer's contributions during the measurement period. At June 30, 2016 the Fund's proportion was 1.73% compared to 1.74% at June 30, 2015.

Sensitivity of the net pension liability to changes in the discount rate: The following presents the Fund's proportionate share of the net pension liability using the discount rate of 7.07%, as well as what the Fund's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.07%) or 1-percentage-point higher (8.07%) than the current rate:

	1.00% Decrease (6.07%)	Current Discount Rate (7.07%)	1.00% Increase (8.07%)
ERS Net Pension Liability	\$ 6,975,342	\$ 4,695,043	\$ 2,750,567

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

**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**Note 7. Employees' Retirement System (ERS) (Continued)**

Pension expense and deferred inflows and outflows of resources related to the ERS Pension: Total Pension expense for the Fund is \$589,424. At June 30, 2017, deferred inflows (outflows) reported in the City's financial statements are as follows:

	Deferred Inflows (Outflows) of Resources
Net difference between expected and actual experience	\$ 136,847
Net difference between projected and actual earnings on plan investments	(843,500)
Change in proportionate share	22,205
Change in assumptions	90,081
	\$ (594,367)

Deferred outflows related to pension contributions made after the measurement date by the Fund of \$593,840 will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts related to deferred inflows or resources will be recognized in pension expense as follows:

Year	Amortization of Deferred Inflows (Outflows)
2017	\$ (13,511)
2018	(13,511)
2019	(374,634)
2020	(192,711)
2021	-
	\$ (594,367)

**Note 8. Commitments and Contingencies**

Commitments for completion of capital projects authorized at June 30, 2017 were \$11,186,709.

**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.

**Wastewater Utility Fund**  
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**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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

Plan description: The City provides post-retirement health care benefits, in accordance with adopted statutes, which require extending access to healthcare benefits to certain retirees. General City employees are eligible to participate at the earlier of age 55 and 15 years of creditable service or 25 years of creditable service. Employees who retire on accidental disability are also eligible. Retirees that elect to participate may purchase health care coverage using the same health care plans and premium structures available to active employees. Retiree participation, plan/benefit elections and contributions are administered by the City's Retirement Bureau based on the participation guidelines established by the Norfolk City Council. Benefits are currently managed on a pay-as-you-go basis rather than use of an irrevocable trust and a separate financial report of the OPEB Plan is not issued. The Plan is considered a single-employer plan.

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

The annual required contribution was determined as part of the July 1, 2016 actuarial valuation using the entry age normal actuarial cost method. The amortization method is level percent open. The actuarial assumptions included: (a) 2.85% percent investment rate of return and (b) projected salary increases of 3.50% per year. Both (a) and (b) include a medical inflation component of 7.80% (pre-Medicare) grading to 3.0% over 19 years. The actuarial value of the City's assets is equal to the market value of assets. The remaining amortization period is a rolling 30 years.

Annual OPEB cost and net OPEB obligation: The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with GASB Statements No. 43 and 45. Under these Statements, 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 ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The total unfunded actuarial accrued liability (UAAL) for 2017 is \$ 619,255, 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.

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

**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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

The Fund and the City use the pay as you go method to calculate the OPEB liability for June 30, 2017 as the City has not funded a trust for the OPEB liability. Using the most recent OPEB plan valuation date of July 1, 2016, 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:

	2017
Net beginning OPEB obligation	\$ 719,818
Annual required contributions	75,240
Interest on net OPEB obligation	21,495
Adjustment to ARC	(23,564)
Annual OPEB cost	73,171
Less: contributions made	10,803
Increase in net OPEB obligation	62,368
Net ending OPEB obligation	\$ 782,186

Actuarial methods and assumptions: 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, 2016 with results projected for the fiscal year ended June 30, 2017. The entry age normal actuarial cost method was used with a level percent open amortization method over 30 years. A discount rate of 2.85% was used. Annual rates of health care inflation used were 7.8 % (pre-Medicare) grading to 3.00% over 19 years and the annual rate of salary increases used was 3.50%.

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

**Note 12. Accounting Pronouncements Issued but not yet Implemented**

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

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement applies to government employers who provide OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. This statement requires governments to report a liability on the face of the financial statements for the OPEB that they provide. The statement is effective for fiscal years beginning after June 15, 2017.

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

**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

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**Note 12. Accounting Pronouncements Issued but not yet Implemented (Continued)**

- GASB Statement No. 83, *Certain Asset Retirement Obligations*. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. This Statement is effective for reporting periods beginning after June 15, 2018.
- GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported by establishing criteria for identifying fiduciary activities of all state and local governments. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.
- GASB Statement No. 85, *Omnibus 2017*. This Statement addresses practice issues that have been identified during the implementation and application of certain GASB statements including topics related to blending component units, goodwill, fair value measurement and postemployment benefits. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.
- GASB Statement No. 87, *Leases*. The objective of this Statement is to improve accounting and financial reporting for leases by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

**Note 13. Subsequent Events**

General Obligation Capital Improvement Bonds, Series 2017 A – On December 5, 2017, the City issued \$103,520,000 General Obligation Capital Improvement Bonds, Series 2017 A. The Fund's portion of the Series 2017A Bonds was \$8,610,000.

General Obligation Refunding Bonds, Series 2017 C – On December 5, 2017, the City completed the sale of \$59,275,000 of General Obligation Refunding Bonds, Series 2017 C for savings. Aggregate total net present value savings were \$3,449,169, or 5.35% of the original debt service requirements. The Fund's Par amount of the Series 2017 C Bonds was \$2,388,391.

Virginia Clean Water Revolving Loan Fund Program – On December 7, 2017, the State Water Control Board authorized funding from the Virginia Clean Water Revolving Loan Fund to the City of Norfolk. The funding consists of a 20 year, interest-free loan of \$10,000,000.

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

**Required Supplementary Information**  
**For the Fiscal Year Ended June 30, 2017**

**Supplemental Other Post Employment Benefit (OPEB)**  
**Schedule of Funding Progress**  
**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)	UAAL as a percentage of covered payroll (b-a)/c
July 1, 2016	\$ -	\$ 619,255	\$ 619,255	-	\$ 4,031,994	15.4%
July 1, 2015	-	742,524	742,524	-	3,866,402	19.2%
July 1, 2014	-	787,929	787,929	-	3,709,235	21.2%

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

**Required Supplementary Information  
For the Fiscal Year Ended June 30, 2017**

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

Fiscal Years	Actuarially Determined Required Contributions*	Employer Contributions*	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll**	Contributions as a % of Covered Employee Payroll
2017	\$ 594	\$ 594	\$ -	\$ 3,339	17.79%
2016	532	532	-	3,114	17.09%
2015	667	609	58	3,119	19.53%
2014	669	669	-	3,098	21.59%
2013	729	729	-	2,980	24.46%
2012	755	755	-	2,971	25.41%
2011	739	739	-	3,069	24.08%
2010	613	613	-	3,273	18.73%
2009	529	529	-	3,161	16.74%
2008	479	479	-	3,080	15.55%

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

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

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

**Required Supplementary Information  
For the Fiscal Year Ended June 30, 2017**

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

Fiscal Years	Proportionate Share as a percent of Employer Contribution	Proportionate Share of the Net Pension Liability	Employer's Covered Employee Payroll**	Proportionate Share of Net Pension Liability as a percent of Covered Payroll	Plan Fiduciary Net Position as a percent of Total Pension Liability
2017	1.73%	\$ 4,695	\$ 3,114	150.77%	78.22%
2016	1.74%	\$ 3,689	\$ 3,119	118.26%	82.74%
2015	1.72%	\$ 2,846	\$ 3,098	91.87%	86.50%

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

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

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

**Other Supplementary Information**  
**For Fiscal Year Ended June 30, 2017**

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

Fiscal Year	Revenue	Operating Expenses	Available for Debt Service	Debt Service			Coverage
	Available for Debt Service (1)	Less Depreciation & Amortization (2)		Principal	Interest	Total	
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
2015	28,241,721	10,581,959	17,659,762	2,490,000	-	2,490,000	7.09
2016	28,028,027	10,347,338	17,680,689	3,019,967	-	3,019,967	5.85
2017	29,246,659	12,826,121	16,420,538	3,488,443	-	3,488,443	4.71

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, 2017, 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 December 15, 2017.

### **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 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  
December 15, 2017