



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

Financial and Compliance Report  
Year Ended June 30, 2012

# Wastewater Utility Fund of the City of Norfolk, Virginia

Financial and Compliance Report  
Year Ended June 30, 2012

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KPMG LLP  
Suite 1900  
440 Monticello Avenue  
Norfolk, VA 23510

## Independent Auditors' Report

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

We have audited the accompanying statement of net assets of the Wastewater Utility Fund of the City of Norfolk, Virginia (the Fund), as of June 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the City of Norfolk. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Water Utility Fund of the City of Norfolk, Virginia, as of June 30, 2012 and 2011, and the respective changes in financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.



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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2013 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

U.S. generally accepted accounting principles requires that the Supplemental Other Post Employment Benefit (OPEB) Information on page 20 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.

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 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Supplemental Debt Capacity 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 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.

KPMG LLP

January 15, 2013

Wastewater Utility Fund of the City of Norfolk, Virginia

*Statements of Net Assets*  
June 30, 2012 and 2011

	2012	2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 14,799,371	\$ 5,873,554
Unrestricted short term investments (Note 2)	789,912	7,337,687
Receivables:		
Accounts (net) (Note 3)	2,265,983	1,886,043
Unbilled accounts (Note 4)	1,095,674	1,105,598
Other receivables	53,550	53,550
Inventories	31,699	32,417
Internal balances	-	1,362
Restricted cash held in escrow (Note 2)	28,919	69,028
Investment restricted for construction (Note 2)	14,724,493	693,066
Total current assets	<u>33,789,601</u>	<u>17,052,305</u>
Capital Assets (Note 5):		
Non-depreciable assets	27,469,156	20,980,977
Depreciable assets	246,777,902	233,043,851
Accumulated depreciation and amortization	<u>(59,233,687)</u>	<u>(54,491,590)</u>
Total noncurrent assets	<u>215,013,371</u>	<u>199,533,238</u>
<b>Total assets</b>	<u><b>248,802,972</b></u>	<u><b>216,585,543</b></u>
<b>LIABILITIES</b>		
Current liabilities:		
Vouchers payable	222,785	282,204
Vouchers payable for CIP Projects	3,485,133	4,879,725
Contract retainage	705,700	551,452
Due to Capital Project fund and other funds	821	-
Accrued interest	1,150,379	1,153,515
Accrued payroll	82,162	112,586
Payable to employee retirement system	754,958	739,000
Current portion of bonds payable (Note 6)	8,671,909	8,390,509
Compensated absences	187,114	157,969
Other liabilities	27,500	11,750
Total current liabilities	<u>15,288,461</u>	<u>16,278,710</u>
Noncurrent liabilities:		
General obligation bonds payable (Note 6)	109,129,293	91,282,973
Revenue bonds payable (Note 6)	32,097,179	22,443,584
Liability for other post employment benefits (OPEB) (Note 11)	542,079	425,777
Compensated absences	187,217	200,079
Total noncurrent liabilities	<u>141,955,768</u>	<u>114,352,413</u>
<b>Total liabilities</b>	<u><b>157,244,229</b></u>	<u><b>130,631,123</b></u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	79,868,402	78,109,238
Unrestricted	<u>11,690,341</u>	<u>7,845,182</u>
<b>Total net assets</b>	<u><b>\$ 91,558,743</b></u>	<u><b>\$ 85,954,420</b></u>

See Notes to Financial Statements

Wastewater Utility Fund of the City of Norfolk, Virginia

*Statements of Revenues, Expenses and Changes in Net Assets*  
 Years Ended June 30, 2012 and 2011

	2012	2011
Operating revenues:		
Charges for services	\$ 24,797,420	\$ 24,362,092
Miscellaneous	898,182	494,525
<b>Total operating revenues</b>	<b>25,695,602</b>	<b>24,856,617</b>
Operating expenses:		
Personnel services	4,613,140	4,604,225
Plant operations	2,214,306	2,509,326
Chemicals	62,628	59,868
Provision for bad debts	136,754	223,640
Depreciation and amortization	4,952,310	4,818,680
Retirement contribution	754,958	739,000
OPEB expense	116,302	128,942
Administrative expenses	1,410,517	1,459,162
Other	1,666,644	1,765,728
<b>Total operating expenses</b>	<b>15,927,559</b>	<b>16,308,571</b>
<b>Operating income</b>	<b>9,768,043</b>	<b>8,548,046</b>
Nonoperating revenues (expenses):		
Interest income, net of interest capitalized	-	72
Intergovernmental revenues	214,199	357,582
Interest expense and fiscal charges, net of interest capitalized	(2,857,312)	(3,398,280)
Loss on sale or disposal of fixed assets	(20,607)	-
<b>Total nonoperating expenses, net</b>	<b>(2,663,720)</b>	<b>(3,040,626)</b>
<b>Income before contributions and transfers</b>	<b>7,104,323</b>	<b>5,507,420</b>
Transfers out	(1,500,000)	(1,500,000)
<b>Change in net assets</b>	<b>5,604,323</b>	<b>4,007,420</b>
Total net assets - beginning	85,954,420	81,947,000
Total net assets - end	<b>\$ 91,558,743</b>	<b>\$ 85,954,420</b>

See Notes to Financial Statements

Wastewater Utility Fund of the City of Norfolk, Virginia

*Statements of Cash Flows*

Years Ended June 30, 2012 and 2011

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 25,188,832	\$ 24,821,765
Payments to suppliers	(2,335,635)	(2,466,877)
Payments to employees	(5,366,281)	(5,193,491)
Other payments/receipts	(3,103,950)	(3,214,640)
Net cash provided by operating activities	<u>14,382,966</u>	<u>13,946,757</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Internal activity, payments from (to) other funds	2,183	1,976,804
Transfers out	(1,500,000)	(1,500,000)
Intergovernmental revenues	214,199	357,582
Net cash (used in) provided by noncapital financing activities	<u>(1,283,618)</u>	<u>834,386</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from sale of debt	38,970,870	13,485,860
Proceeds from sale of fixed assets	21,932	-
Purchases of capital assets	(21,672,787)	(16,859,847)
Principal paid on capital debt	(8,390,509)	(7,502,669)
Refunding of debt principal	(6,241,599)	(6,358,281)
Interest paid on capital debt	582,105	(3,974,322)
Net cash provided by (used in) capital and related financing activities	<u>3,270,012</u>	<u>(21,209,259)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(36,980,505)	(6,609,667)
Proceeds from sale or maturity of investments	29,496,853	6,860,945
Interest and dividends	-	72
Net cash (used in) provided by investing activities	<u>(7,483,652)</u>	<u>251,350</u>
Net increase (decrease) in cash and cash equivalents	<u>8,885,708</u>	<u>(6,176,766)</u>
Cash and cash equivalents - beginning of year	<u>5,942,582</u>	<u>12,119,348</u>
Cash and cash equivalents - end of year	<u>\$ 14,828,290</u>	<u>\$ 5,942,582</u>

(Continued)



Wastewater Utility Fund of the City of Norfolk, Virginia

*Statements of Cash Flows (Continued)*

Years Ended June 30, 2012 and 2011

**Reconciliation of Operating Income to Net Cash**

**Provided by Operating Activities:**

Operating income	\$ 9,768,043	\$ 8,548,046
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for bad debts	136,754	223,640
Depreciation and amortization expense	4,952,310	4,818,680
Loss on disposal of assets	(42,539)	-
Change in assets and liabilities:		
Accounts receivable (net), billed and unbilled	(506,770)	(34,852)
Inventories	718	19,945
Vouchers payable	(59,419)	82,372
Accrued payroll	1,817	149,734
Other liabilities	132,052	139,192
Net cash provided by operating activities	<u>\$ 14,382,966</u>	<u>\$ 13,946,757</u>

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

Cash and cash equivalents	\$ 14,799,371	\$ 5,873,554
Restricted cash held in escrow	28,919	69,028
Total cash and cash equivalents per Statement of Net Assets	<u>\$ 14,828,290</u>	<u>\$ 5,942,582</u>

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

Acquisition of fixed assets through change in contract retainage	\$ 154,248	\$ 187,014
Acquisition of fixed assets through change in vouchers payable	<u>\$ (1,394,592)</u>	<u>\$ 3,331,499</u>
Capitalized interest	<u>\$ 558,787</u>	<u>\$ 440,524</u>

See Notes to Financial Statements

Notes to Financial Statements

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

The Wastewater Utility Fund of the City of Norfolk, Virginia (the "Fund") was established at the direction of Norfolk City Council as an enterprise fund on July 1, 1984. The Fund accounts for the operation of the wastewater system owned by the City of Norfolk (the "City"). The costs of providing services on a continuing basis are financed or recovered through user charges to the City's residential and commercial customers. Activities necessary to provide wastewater services, including operations, maintenance, financing and related debt service, and billing and collection, are accounted for in the Fund. Although separate financial statements have been presented for the Fund, it is also included in the City of Norfolk's Comprehensive Annual Financial Report as a major Enterprise Fund.

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

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

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

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

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

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

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

Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2012

Notes to Financial Statements

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

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

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

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

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

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

Compensated absences: It is the Fund's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation leave is fully vested when earned by Fund employees. Sick leave does not vest for Fund employees; however, upon retirement, Fund employees receive credit for each day of accumulated sick leave toward their pension benefit. There is no liability for unpaid accrued sick leave service since the Fund does not pay when the employee separates from service.

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

Operating and nonoperating revenues: The Fund reports as operating revenues all charges for services generated through service fees and certain other miscellaneous revenues. Other revenues, including interest revenue and grants, are reported as nonoperating. When both restricted and unrestricted resources are available for use, the policy is to use restricted resources first and then unrestricted resources as they are needed.

Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2012

Notes to Financial Statements

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General allocations: The General Fund of the City provides administrative services to the Fund, which totaled \$1,480,717 and \$1,529,362 for the years ended June 30, 2012 and 2011, respectively. Charges for these services are treated as expenses by the Fund. In addition the Fund recorded, as other expenses, payments to the General Fund in lieu of taxes of \$114,521 for the years ended June 30, 2012 and 2011, respectively.

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

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

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

**Note 2. Cash and Investments**

At June 30 2012 and 2011, the Fund's cash and investments consist of the following:

	2012	2011
Investment in LGIP	\$ 1	\$ 1
Other investments	15,514,405	8,030,753
Cash	14,828,289	5,942,581
	<u>\$ 30,342,695</u>	<u>\$ 13,973,335</u>
Cash and cash equivalents	\$ 14,799,371	\$ 5,873,554
Restricted cash held in escrow	28,919	69,028
Unrestricted short term investments	789,912	7,337,687
Investment restricted for construction	14,724,493	693,066
	<u>\$ 30,342,695</u>	<u>\$ 13,973,335</u>

Deposits: All cash of the Fund is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance.

Investments: Statutes authorize the Fund to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development ("World Bank") and Asian Development Bank, the African Development Bank, commercial paper rated A-1 by Standard and Poor's or P-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool, certain mutual funds, corporate notes, asset-backed securities, and savings accounts or time deposits.

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

Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2012

Notes to Financial Statements

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

Investment Type	2012	2011
	Fair Value	Fair Value
	Less than 1 year	Less than 1 year
SNAP Money Market Mutual Funds	\$ 15,514,399	\$ 8,030,746
PFM Funds Prime Series	6	7
	<u>\$ 15,514,405</u>	<u>\$ 8,030,753</u>

The Fund's rated investments, other than in LGIP, as of June 30, 2012 and 2011 were rated by Standard and Poor's and the ratings presented below using the Standard and Poor's rating scale.

Investment Type	Fiscal Year 2012	
	AAAm	Total
Money Market Mutual Funds		
SNAP Money Market Mutual Funds	\$ 15,514,399	\$ 15,514,399
PFM Funds Prime Series	6	6
Total Money Market Mutual Funds	<u>\$ 15,514,405</u>	<u>\$ 15,514,405</u>

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

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

Certain cash and investments of the Fund are combined with other City monies for investment purposes. These amounts were covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Reference should be made to the Comprehensive Annual Financial Report of the City for further cash and investment disclosures.

Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2012

Notes to Financial Statements

**Note 3. Accounts Receivable**

Accounts receivable at June 30, 2012 and 2011 are comprised of the following:

	2012	2011
Wastewater maintenance fees	\$ 3,244,500	\$ 3,000,284
Less allowance for uncollectible accounts	(978,517)	(1,114,241)
	<u>\$ 2,265,983</u>	<u>\$ 1,886,043</u>

**Note 4. Unbilled Accounts Receivable**

At June 30, 2012 and 2011, the Fund recognized \$1,095,674 and \$1,105,598 as unbilled accounts receivable related to unread meters. The associated revenue is included in net charges for services. These amounts were billed in July 2012 and July 2011, respectively.

**Note 5. Capital Assets**

Capital assets at June 30, 2012 and 2011 are comprised of the following:

	Balance June 30, 2011	Additions	Retirements / Transfers	Balance June 30, 2012
<b>Nondepreciable assets:</b>				
Land	\$ 85,262	\$ 194,450	\$ -	\$ 279,712
Construction-in-progress	20,895,715	19,691,262	(13,397,533)	27,189,444
Total nondepreciable assets	<u>20,980,977</u>	<u>19,885,712</u>	<u>(13,397,533)</u>	<u>27,469,156</u>
<b>Depreciable &amp; amortized assets:</b>				
Buildings	3,818,115	-	-	3,818,115
Equipment	229,133,258	13,986,803	(252,752)	242,867,309
Intangible assets	92,478	-	-	92,478
Total depreciable & amortized assets	<u>233,043,851</u>	<u>13,986,803</u>	<u>(252,752)</u>	<u>246,777,902</u>
<b>Less accumulated depreciation for</b>				
Buildings	(770,639)	(63,214)	-	(833,853)
Equipment	(53,694,008)	(4,870,560)	210,213	(58,354,355)
Intangible assets	(26,943)	(18,536)	-	(45,479)
Total accumulated depreciation	<u>(54,491,590)</u>	<u>(4,952,310)</u>	<u>210,213</u>	<u>(59,233,687)</u>
Total depreciable assets, net	178,552,261	9,034,493	(42,539)	187,544,215
Total capital assets, net	<u>\$ 199,533,238</u>	<u>\$ 28,920,205</u>	<u>\$ (13,440,072)</u>	<u>\$ 215,013,371</u>

Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2012

Notes to Financial Statements

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

The Fund capitalized \$563,980 of interest expense and \$5,193 of interest income for the fiscal year ended June 30, 2012. For fiscal year ended June 30, 2011, the Fund capitalized \$470,676 of interest expense and \$30,152 of interest income. The total interest cost for 2012 and 2011 were \$3,421,292 and \$3,868,956, respectively.

**Note 6. Long-Term Obligations**

General obligation bonds: A summary of general obligation bond transactions for the fiscal years ended June 30, 2012 and 2011 is as follows:

	2012	2011
Beginning, July 1	\$ 97,325,399	\$ 103,468,981
Bonds retired/refunded	(13,407,108)	(13,010,950)
Bonds issued	27,583,367	6,867,368
Bonds outstanding at June 30	111,501,658	97,325,399
Unamortized discount/premium, net	4,574,544	1,123,083
General obligation bonds outstanding at June 30, adjusted for unamortized discount/premium	116,076,202	98,448,482
Less current portion	(6,946,909)	(7,165,509)
	\$ 109,129,293	\$ 91,282,973

Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2012

Notes to Financial Statements

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

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2012	2011
Series 2002 Capital Improvement	2/1/2002	27,000,000	2.00 - 5.00%	\$ -	\$ 105,530
Series 2002 Refunding	2/1/2002	47,200,000	2.00 - 5.00%	506,000	1,527,374
Series 2002B Refunding	11/1/2002	39,890,000	4.00 - 5.25%	754,590	1,017,995
Series 2003 VRA	4/8/2003	10,000,000	3.50%	6,711,997	7,133,548
Series 2003 Capital Improvement	11/15/2003	57,110,000	3.00 - 5.00%	109,981	164,971
Series 2004 Refunding	3/1/2004	96,395,000	4.00 - 5.00%	3,083,700	3,769,718
Series 2004 VRA	9/17/2004	11,100,000	3.10%	8,610,237	9,094,805
Series 2005 Capital Improvement	3/16/2005	59,320,000	3.00 - 5.00%	545,923	871,878
Series 2005 Refunding	3/16/2005	35,035,000	3.00 - 5.00%	3,961,100	4,591,477
Series 2005 VRA	3/14/2006	11,500,000	3.00%	9,367,949	9,836,537
Series 2006 VRA	9/28/2006	14,250,000	-	11,400,000	12,112,500
Series 2006 Capital Improvement	11/15/2006	99,225,000	4.00 - 5.00%	1,787,090	7,999,500
Series 2006 Refunding	11/15/2006	15,830,000	4.00 - 5.00%	114,419	269,027
Series 2008 Capital Improvement	6/30/2008	26,230,118	4.70 - 5.00%	18,230,000	19,125,000
Series 2009 Refunding	5/21/2009	1,435,141	4.00 - 5.00%	674,057	1,047,489
Series 2010 Capital Improvement (A&B)	1/21/2010	11,790,682	1.75 - 5.96%	11,193,880	11,790,682
Series 2010 G Refunding	10/19/2010	6,867,368	4.04 - 5.96%	6,867,368	6,867,368
Series 2012 A Refunding	5/30/2012	82,179,384	4.40 - 5.00%	5,958,367	-
Series 2012 C Capital Improvement	6/28/2012	21,625,000	4.35 - 5.00%	21,625,000	-
Wastewater Utility General Obligation Bonds outstanding				<u>\$ 111,501,658</u>	<u>\$ 97,325,399</u>

A summary of the requirements to amortize general obligation bonds outstanding at June 30, 2012 is as follows:

Year Ending June 30,	Principal	Interest
2013	\$ 6,946,909	\$ 3,970,287
2014	7,125,085	3,897,660
2015	7,289,465	3,603,898
2016	6,846,958	3,358,707
2017	6,947,120	3,103,090
2018-2022	32,463,267	12,309,609
2023-2027	32,032,302	6,260,406
2028-2032	10,770,552	1,395,601
2033-2037	1,080,000	27,000
	<u>\$ 111,501,658</u>	<u>\$ 37,926,258</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 of the City of Norfolk, Virginia  
June 30, 2012

Notes to Financial Statements

Current and Advanced Refunding: On May 30, 2012, the City sold \$76,835,000 of general obligation bonds. The two-prong sale was comprised of \$69,030,000 of General Obligation Capital Improvement Refunding Bonds, Series 2012A and \$7,805,000 of General Obligation Qualified Redevelopment Bonds, Series 2012B (AMT). The Series 2012A Bonds were used to defease \$5,580,000 of the City's Series 2005 General Obligation Bonds, \$55,745,000 of the City's Series 2006 General Obligation Bonds and \$12,735,000 of the City's Series 2004 HUD Loan. The Series 2012B Bonds were used to defease \$1,000,000 of the City's Series 1997 Qualified Redevelopment Bonds, \$775,000 of the City's Series 1998 Qualified Redevelopment Bonds, \$1,400,000 of the Series 1999 Qualified Redevelopment Bonds, \$1,595,000 of the City's Series 2000 Qualified Redevelopment Bonds and \$4,000,000 of the City's Series 2002 Qualified Redevelopment Bonds. The refunding will reduce the City's total debt service payments for bonds and result in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$7,434,987.

The Wastewater Utility Fund's portion of the \$69,030,000 General Obligation Refunding Bonds, Series 2012A was \$5,958,367. It was used to defease \$5,990,644 of Wastewater's Series 2006 General Obligation Bonds and \$250,955 of Wastewater's Series 2006 General Obligation Bonds. 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 years ended June 30, 2012 and 2011 is as follows:

	2012	2011
Beginning, July 1	\$ 23,727,659	\$ 17,959,167
Bonds retired/refunded	(1,225,000)	(850,000)
Bonds issued	11,387,503	6,618,492
Bonds outstanding at June 30	33,890,162	23,727,659
Unamortized discount/premium, net	(67,983)	(59,075)
Revenue bonds outstanding at June 30,		
adjusted for unamortized discount/premium	33,822,179	23,668,584
Less current portion	(1,725,000)	(1,225,000)
	<u>\$ 32,097,179</u>	<u>\$ 22,443,584</u>

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

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2012	2011
Series 2007 VRA	11/9/2007	\$ 17,000,000	-	\$ 14,875,000	\$ 15,725,000
Series 2009 VRA	11/17/2009	7,500,000	-	7,125,000	4,879,354
Series 2010 VRA	10/8/2010	9,600,161	-	9,100,161	3,123,305
Series 2011 VRA	10/21/2011	2,790,001	-	2,790,001	-
Wastewater Utility Revenue Bonds outstanding				<u>\$ 33,890,162</u>	<u>\$ 23,727,659</u>

Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2012

Notes to Financial Statements

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A summary of the requirements to amortize revenue bonds outstanding at June 30, 2012 is as follows:

Year Ending June 30,	Principal
2013	\$ 1,725,000
2014	1,817,140
2015	1,817,140
2016	1,817,140
2017	1,817,140
2018-2022	9,085,700
2023-2027	9,085,700
2028-2032	6,585,700
2033-2037	139,502
	<u>\$ 33,890,162</u>

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

Bonds authorized and unissued as of June 30, 2012 and 2011 were \$7,485,748 and \$24,785,748, respectively.

**Note 7. Retirement Obligations**

The Fund contributes to the Employees' Retirement System of the City of Norfolk (the "System"), a single-employer noncontributory defined benefit plan, which is accounted for as a separate Pension Trust Fund. 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 with the exception of Norfolk Community Services Board employees at June 30, 2012 who will become City employees on July 1, 2012. Reference should be made to the Comprehensive Annual Financial Report of the City for a further description of the plan. Retirement expense was \$754,958 and \$739,000 for the years ended June 30, 2012 and 2011, respectively.

**Note 8. Commitments**

Commitments for completion of capital projects authorized at June 30, 2012 and 2011 were \$13,377,185 and \$16,689,872, respectively.

**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.

Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2012

Notes to Financial Statements

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

The Fund and the City use the pay as you go method to calculate the OPEB liability for June 30, 2012 as the City has not funded a trust for the OPEB liability. Using the most recent OPEB plan valuation date of July 1, 2011, 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:

	2012	2011
Net beginning OPEB obligation	\$ 425,777	\$ 296,835
Annual required contributions	175,829	170,700
Interest on net OPEB obligation	18,131	13,384
Adjustment to ARC	(16,836)	(12,428)
Annual OPEB cost	177,124	171,656
Less: contributions made	60,822	42,714
Increase in net OPEB obligation	116,302	128,942
Net ending OPEB obligation	<u>\$ 542,079</u>	<u>\$ 425,777</u>

The total unfunded actuarial accrued liability (UAAL) for 2012 and 2011 is \$1,284,375 and \$1,293,359, 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**

Wastewater System Revenue Bond, Series 2012: On December 18, 2012, the City issued a \$12,000,000 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. The Bond was sold at a true interest cost of 0.00%.

## Notes to Financial Statements

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General Obligation Wastewater Bond Rate Reduction: The City has previously utilized the Virginia Water Facilities Revolving Fund, financially administered by the VRA, to issue several series of general obligation and revenue bonds to partially fund the cash-flow needs of the Wastewater Utility Fund Capital Improvement Program. The Program Administrator, the Virginia Department of Environmental Quality (DEQ), agreed to decrease the interest rate of the Series 2003 (Loan Number C-515296-01) and Series 2006 (Loan Number C-515335-02) Loans from the Virginia Water Facilities Revolving Fund. The rate on the Series 2003 Bond decreased from 3.50% per annum to 2.00% per annum beginning on December 18, 2012. The rate on the Series 2006 Bond decreased from 3.00% per annum to 2.25% per annum beginning on December 18, 2012.

### 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 60: *Accounting and Reporting for Service Concession Arrangements*. GASB 60 addresses issues related to accounting for, financial reporting and disclosure requirements of certain service concession arrangements, which are a type of public-private partnership. The provisions of GASB 60 are effective for fiscal years beginning after December 15, 2011.
- GASB Statement 61: *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. The objectives of GASB 61 are to improve financial reporting for governmental entities. The statement modifies certain requirements for inclusion of component units, by clarifying the manner in which the determination should be made and the type of relationships that should be considered when making that determination. The statement also amends the criteria for reporting blended component units. The provisions of GASB 61 are effective for fiscal years beginning after June 15, 2012.
- GASB Statement 62: *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into GASB's authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989 from the following sources: FASB statements and interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA, so long as it does not contradict or conflict with GASB pronouncements. This statement also supersedes Statement No. 20: *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The provisions of GASB 62 are effective for fiscal years beginning after December 15, 2011.
- GASB Statement 63: *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. GASB 63 provides financial reporting guidance for deferred outflows and inflows of resources. These terms are defined as the consumption or acquisition of net assets by the government that is applicable to a future reporting period respectively. The provisions of GASB 62 are effective for fiscal years beginning after December 15, 2011.
- GASB Statement No. 65: *Items Previously Reported as Assets and Liabilities*. The objective of this Statement is to clarify GASB's conceptual definitions of deferred outflows of resources and deferred inflows of resources elements to a broader range of items to enhance consistency in state and local government financial statements. The statement reclassifies or recognizes certain items currently reported as assets and liabilities as one of four financial statement elements — deferred outflows of resources, outflows of resources, deferred inflows of resources or inflows of resources. Before this guidance, many items that appeared to meet the definition of

## Notes to Financial Statements

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deferred outflows of resources and deferred inflows of resources in Concepts Statement No. 4, *Elements of Financial Statements*, were not specifically identified as such in the GASB's authoritative literature, because the Concepts Statement limits recognition of deferred outflows and deferred inflows to those instances identified in authoritative GASB pronouncement. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

- GASB Statement 66: *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement also amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.
- GASB Statement 67: *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25 and No. 50*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement 50 for pension plans that are administered through trusts or similar arrangements meeting certain criteria. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. Statement 67 enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. It also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year required supplementary information. The provisions of Statement 67 are effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged.
- 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.

Wastewater Utility Fund of the City of Norfolk, Virginia  
 June 30, 2012

Supplementary Schedule

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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	\$ 11,282,865	\$ 12,839,565	\$ 425,000	\$ -	\$ 425,000	30.21
2011	24,856,689	11,489,891	13,366,798	850,000	-	850,000	15.73
2012	25,695,602	10,975,249	14,720,353	1,225,000	-	1,225,000	12.02

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

2. Includes operating expenses less depreciation and amortization.

Supplementary Schedule

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, 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%
July 1, 2009	-	1,259,095	1,259,095	0%	3,613,597	34.8%



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**Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

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

We have audited the financial statements of the Wastewater Utility Fund of the City of Norfolk, Virginia (the Fund) as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated January 15, 2013. Our report also discusses that the Fund has not presented a Management's Discussion and Analysis that U.S. generally accepted accounting principles has determined necessary to supplement, although not required to be a part of, the financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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





### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

**KPMG LLP**

January 15, 2013