



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

Financial and Compliance Report  
Year Ended June 30, 2013

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Financial and Compliance Report  
Year Ended June 30, 2013

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KPMG LLP  
Suite 1900  
440 Monticello Avenue  
Norfolk, VA 23510

## Independent Auditors' Report

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

### Report on the Financial Statements

We have audited the accompanying statements of net position of the Wastewater Utility Fund of the City of Norfolk, Virginia (the Fund), as of and for the years ended June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in fund net position and cash flows for the years then ended 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities and Towns* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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



## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Wastewater Utility Fund of the City of Norfolk, Virginia, as of June 30, 2013 and 2012, and the respective changes in financial position, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

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

## ***Other Matters***

### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the Supplemental Other Post Employment Benefits (OPEB) 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.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Supplemental Debt Capacity Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Supplemental Debt Capacity Information is responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Debt Capacity Information is fairly stated in all material respects in relation to the basic financial statements as a whole.



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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 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 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 23, 2013

Wastewater Utility Fund of the City of Norfolk, Virginia

**Statements of Position**  
June 30, 2013 and 2012

	2013	2012
<b>ASSETS</b>		
Current assets:		
Cash and short-term investments (Note 2)	\$ 8,557,980	\$ 14,799,371
Unrestricted short term investments (Note 2)	5,437,436	789,912
Receivables:		
Accounts (net) (Note 3)	2,228,472	2,265,983
Unbilled accounts (Note 4)	1,252,303	1,095,674
Other receivables	164,693	53,550
Inventories	31,013	31,699
Restricted cash held in escrow (Note 2)	204,787	28,919
Investment restricted for construction (Note 2)	7,830,025	14,724,493
Total current assets	<u>25,706,709</u>	<u>33,789,601</u>
Capital Assets (Note 5):		
Non-depreciable assets	20,052,900	27,469,156
Depreciable assets	274,201,607	246,777,902
Accumulated depreciation and amortization	<u>(64,363,420)</u>	<u>(59,233,687)</u>
Total noncurrent assets	<u>229,891,087</u>	<u>215,013,371</u>
<b>Total assets</b>	<u>255,597,796</u>	<u>248,802,972</u>
<b>LIABILITIES</b>		
Current liabilities:		
Vouchers payable	219,484	222,785
Vouchers payable for CIP Projects	3,427,052	3,485,133
Contract retainage	662,086	705,700
Due to Capital Project fund and other funds	-	821
Accrued interest	1,085,655	1,150,379
Accrued payroll	95,965	82,162
Payable to employee retirement system	729,296	754,958
Current portion of bonds payable (Note 6)	9,148,484	8,671,909
Compensated absences	224,233	187,114
Other liabilities	64,708	27,500
Total current liabilities	<u>15,656,963</u>	<u>15,288,461</u>
Noncurrent liabilities:		
General obligation bonds payable (Note 6)	101,541,588	109,129,293
Revenue bonds payable (Note 6)	41,351,301	32,097,179
Liability for other post employment benefits (OPEB) (Note 11)	581,058	542,079
Compensated absences	136,707	187,217
Total noncurrent liabilities	<u>143,610,654</u>	<u>141,955,768</u>
<b>Total liabilities</b>	<u>159,267,617</u>	<u>157,244,229</u>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	85,474,952	79,868,402
Unrestricted	10,855,227	11,690,341
Total net position	<u>\$ 96,330,179</u>	<u>\$ 91,558,743</u>

See Notes to Financial Statements

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

**Statements of Revenues, Expenses and Changes in Net Position  
Years Ended June 30, 2013 and 2012**

	2013	2012
Operating revenues:		
Charges for services	\$ 25,469,025	\$ 24,797,420
Miscellaneous	429,764	898,182
<b>Total operating revenues</b>	<b>25,898,789</b>	<b>25,695,602</b>
Operating expenses:		
Personnel services	4,818,414	4,613,140
Plant operations	2,545,662	2,214,306
Chemicals	61,016	62,628
Provision for bad debts	153,881	136,754
Depreciation and amortization	5,285,491	4,952,310
Retirement contribution	729,296	754,958
OPEB expense	38,979	116,302
Administrative expenses	1,532,036	1,410,517
Other	1,777,134	1,666,644
<b>Total operating expenses</b>	<b>16,941,909</b>	<b>15,927,559</b>
<b>Operating income</b>	<b>8,956,880</b>	<b>9,768,043</b>
Nonoperating revenues (expenses):		
Intergovernmental revenues	341,181	214,199
Interest expense and fiscal charges, net of interest capitalized	(3,024,967)	(2,857,312)
Loss on sale or disposal of fixed assets	(1,658)	(20,607)
<b>Total nonoperating expenses, net</b>	<b>(2,685,444)</b>	<b>(2,663,720)</b>
<b>Income before contributions and transfers</b>	<b>6,271,436</b>	<b>7,104,323</b>
Transfers out	(1,500,000)	(1,500,000)
<b>Change in net position</b>	<b>4,771,436</b>	<b>5,604,323</b>
Total net position - beginning	91,558,743	85,954,420
Total net position - end	<b>\$ 96,330,179</b>	<b>\$ 91,558,743</b>

See Notes to Financial Statements



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

**Statements of Cash Flows**

**Years Ended June 30, 2013 and 2012**

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 25,514,647	\$ 25,188,832
Payments to suppliers	(2,609,293)	(2,335,635)
Payments to employees	(5,572,960)	(5,366,281)
Other payments/receipts	(3,271,962)	(3,061,411)
Net cash provided by operating activities	<u>14,060,432</u>	<u>14,425,505</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Internal activity, payments from (to) other funds	(821)	2,183
Transfers out	(1,500,000)	(1,500,000)
Intergovernmental revenues	341,181	214,199
Net cash (used in) by noncapital financing activities	<u>(1,159,640)</u>	<u>(1,283,618)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from sale of debt	11,225,334	38,970,870
Proceeds from sale of fixed assets	1,756	21,932
Purchases of capital assets	(20,268,316)	(21,715,326)
Principal paid on capital debt	(8,671,909)	(8,390,509)
Refunding of debt principal	-	(6,241,599)
Interest paid on capital debt	(3,500,124)	582,105
Net cash (used in) provided by capital and related financing activities	<u>(21,213,259)</u>	<u>3,227,473</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(11,525,847)	(36,980,505)
Proceeds from sale or maturity of investments	13,772,791	29,496,853
Net cash provided by (used in) investing activities	<u>2,246,944</u>	<u>(7,483,652)</u>
Net increase (decrease) in cash and cash equivalents	(6,065,523)	8,885,708
Cash and short-term investments - beginning of year	<u>14,828,290</u>	<u>5,942,582</u>
Cash and short-term investments - end of year	<u>\$ 8,762,767</u>	<u>\$ 14,828,290</u>

(Continued)

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

**Statements of Cash Flows (Continued)**

**Years Ended June 30, 2013 and 2012**

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**Reconciliation of Operating Income to Net Cash**

**Provided by Operating Activities:**

Operating income	\$ 8,956,880	\$ 9,768,043
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for bad debts	153,881	136,754
Depreciation and amortization expense	5,285,491	4,952,310
Change in assets and liabilities:		
Accounts receivable (net), billed and unbilled	(384,142)	(506,770)
Inventories	686	718
Vouchers payable	(3,301)	(59,419)
Accrued payroll	(25,250)	1,817
Other liabilities	76,187	132,052
Net cash provided by operating activities	<u>\$ 14,060,432</u>	<u>\$ 14,425,505</u>

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

Cash and cash equivalents	\$ 8,557,980	\$ 14,799,371
Restricted cash held in escrow	204,787	28,919
Total cash and cash equivalents per Statement of Net Assets	<u>\$ 8,762,767</u>	<u>\$ 14,828,290</u>

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

Acquisition of fixed assets through change in contract retainage	\$ (43,614)	\$ 154,248
Acquisition of fixed assets through change in vouchers payable	<u>\$ (58,081)</u>	<u>\$ (1,394,592)</u>
Capitalized interest	<u>\$ 463,002</u>	<u>\$ 558,787</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.

Reclassifications: Certain reclassifications to the 2012 Statement of Cash Flows have been made in order to conform to the presentation of the 2013 Statement of Cash Flows. These reclassifications are not significant.

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

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

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

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

**Wastewater Utility Fund of the City of Norfolk, Virginia**  
**June 30, 2013**

**Notes to Financial Statements**

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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.

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.

**Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2013**

**Notes to Financial Statements**

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

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

General allocations: The General Fund of the City provides administrative services to the Fund, which totaled \$1,602,236 and \$1,480,717 for the years ended June 30, 2013 and 2012, 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, 2013 and 2012, 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, 2013 and 2012, the Fund's cash and investments consist of the following:

	2013	2012
Investment in LGIP	\$ 1	\$ 1
Other investments	13,267,461	15,514,405
Cash and short-term investments	8,762,766	14,828,289
	<u>\$ 22,030,228</u>	<u>\$ 30,342,695</u>
Cash and cash equivalents	\$ 8,557,980	\$ 14,799,371
Restricted cash held in escrow	204,787	28,919
Unrestricted short term investments	5,437,436	789,912
Investment restricted for construction	7,830,025	14,724,493
	<u>\$ 22,030,228</u>	<u>\$ 30,342,695</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. Under the Act, any public depository that receives or holds public deposits ("Qualified Public Depositories") shall elect

**Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2013**

**Notes to Financial Statements**

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

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

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

Certain cash and investments of the Fund are combined with other City funds for investment purposes. These amounts 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.

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

Investment Type	2013	2012
	Fair Value	Fair Value
	<b>Less than 1 year</b>	Less than 1 year
SNAP Money Market Mutual Funds	\$ 13,267,445	\$ 15,514,399
PFM Funds Prime Series	16	6
	<b>\$ 13,267,461</b>	<b>\$ 15,514,405</b>

The Fund's rated investments, other than in LGIP, as of June 30, 2013 and 2012 were rated by Standard and Poor's and the ratings presented below using the Standard and Poor's rating scale.

**Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2013**

**Notes to Financial Statements**

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<b>Investment Type</b>	<b>Fiscal Year 2013</b>	
	<b>AAAm</b>	<b>Total</b>
<b>Money Market Mutual Funds</b>		
<b>SNAP Money Market Mutual Funds</b>	<b>\$ 13,267,445</b>	<b>\$ 13,267,445</b>
<b>PFM Funds Prime Series</b>	<b>16</b>	<b>16</b>
<b>Total Money Market Mutual Funds</b>	<b>\$ 13,267,461</b>	<b>\$ 13,267,461</b>

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

**Note 3. Accounts Receivable**

Accounts receivable at June 30, 2013 and 2012 are comprised of the following:

	<b>2013</b>	<b>2012</b>
Wastewater maintenance fees	<b>\$ 3,078,472</b>	<b>\$ 3,244,500</b>
Less allowance for uncollectible accounts	<b>(850,000)</b>	<b>(978,517)</b>
	<b>\$ 2,228,472</b>	<b>\$ 2,265,983</b>

**Note 4. Unbilled Accounts Receivable**

At June 30, 2013 and 2012, the Fund recognized \$1,252,303 and \$1,095,674 as unbilled accounts receivable related to unread meters. The associated revenue is included in net charges for services. These amounts were billed in July 2013 and July 2012, respectively.

**Note 5. Capital Assets**

Capital assets at June 30, 2013 and 2012 are comprised of the following:

Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2013

Notes to Financial Statements

	Balance June 30, 2012	Additions	Retirements / Transfers	Balance June 30, 2013
<b>Nondepreciable assets:</b>				
Land	\$ 279,712	\$ 108,618		\$ 388,330
Construction-in-progress	27,189,444	19,445,967	(26,970,841)	19,664,570
Total nondepreciable assets	27,469,156	19,554,585	(26,970,841)	20,052,900
<b>Depreciable &amp; amortized assets:</b>				
Buildings	3,818,115	-	-	3,818,115
Equipment	242,867,309	27,582,877	(159,172)	270,291,014
Intangible assets	92,478	-	-	92,478
Total depreciable & amortized assets	246,777,902	27,582,877	(159,172)	274,201,607
<b>Less accumulated depreciation for</b>				
Buildings	(833,853)	(65,108)	-	(898,961)
Equipment	(58,354,355)	(5,201,898)	155,758	(63,400,495)
Intangible assets	(45,479)	(18,485)	-	(63,964)
Total accumulated depreciation	(59,233,687)	(5,285,491)	155,758	(64,363,420)
Total depreciable assets, net	187,544,215	22,297,386	(3,414)	209,838,187
Total capital assets, net	\$ 215,013,371	\$ 41,851,971	\$ (26,974,255)	\$ 229,891,087

	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	20,980,977	19,885,712	(13,397,533)	27,469,156
<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	233,043,851	13,986,803	(252,752)	246,777,902
<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	(54,491,590)	(4,952,310)	210,213	(59,233,687)
Total depreciable assets, net	178,552,261	9,034,493	(42,539)	187,544,215
Total capital assets, net	\$ 199,533,238	\$ 28,920,205	\$ (13,440,072)	\$ 215,013,371

The Fund capitalized \$523,713 of interest expense and \$60,711 of interest income for the fiscal year ended June 30, 2013. For fiscal year ended June 30, 2012, the Fund capitalized \$563,980 of interest expense and \$5,193 of interest income. The total interest cost for 2013 and 2012 were \$3,548,680 and \$3,421,292, respectively.



**Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2013**

**Notes to Financial Statements**

**Note 6. Long-Term Obligations**

General obligation bonds: A summary of general obligation bond transactions for the fiscal years ended June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Beginning, July 1	<b>\$ 111,501,658</b>	\$ 97,325,399
Bonds retired/refunded	<b>(6,946,909)</b>	(13,407,108)
Bonds issued	-	27,583,367
Bonds outstanding at June 30	<b>104,554,749</b>	111,501,658
Unamortized discount/premium, net	<b>4,177,823</b>	4,574,544
General obligation bonds outstanding at June 30, adjusted for unamortized discount/premium	<b>108,732,572</b>	116,076,202
Less current portion	<b>(7,190,984)</b>	(6,946,909)
	<b><u>\$ 101,541,588</u></b>	<b><u>\$ 109,129,293</u></b>

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

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2013	2012
Series 2002 Refunding	2/1/2002	47,200,000	2.00 - 5.00%	-	506,000
Series 2002B Refunding	11/1/2002	39,890,000	4.00 - 5.25%	-	754,590
Series 2003 VRA	4/8/2003	9,423,794	2.00%	<b>6,275,562</b>	6,711,997
Series 2003 Capital Improvement	11/15/2003	69,375,000	3.63%	<b>54,990</b>	109,981
Series 2004 Refunding	3/1/2004	96,395,000	4.00 - 5.00%	<b>2,400,258</b>	3,083,700
Series 2004 VRA	9/17/2004	11,187,809	3.10%	<b>8,110,532</b>	8,610,237
Series 2005 Capital Improvement	3/16/2005	59,320,000	3.00 - 5.00%	<b>465,923</b>	545,923
Series 2005 Refunding	3/16/2005	35,035,000	3.00 - 5.00%	<b>3,158,360</b>	3,961,100
Series 2005 VRA	3/14/2006	11,500,000	2.25%	<b>8,885,198</b>	9,367,949
Series 2006 VRA	9/28/2006	14,250,000	none	<b>10,687,500</b>	11,400,000
Series 2006 Capital Improvement	11/15/2006	99,225,000	4.00 - 5.00%	<b>1,392,090</b>	1,787,090
Series 2006 Refunding	11/15/2006	15,830,000	4.00 - 5.00%	<b>112,939</b>	114,419
Series 2008 Capital Improvement	6/30/2008	153,605,000	4.70 - 5.00%	<b>17,290,000</b>	18,230,000
Series 2009 Refunding	5/21/2009	21,895,000	3.00 - 5.00%	<b>674,057</b>	674,057
Series 2010 Capital Improvement (A&B)	1/21/2010	11,790,682	1.75 - 5.96%	<b>10,596,605</b>	11,193,880
Series 2010 G Refunding	10/19/2010	6,867,368	2.50 - 5.00%	<b>6,867,368</b>	6,867,368
Series 2012 A Refunding	5/30/2012	82,179,384	2.00 - 5.00%	<b>5,958,367</b>	5,958,367
Series 2012 C Capital Improvement	6/28/2012	21,625,000	2.00 - 5.00%	<b>21,625,000</b>	21,625,000
Wastewater Utility General Obligation Bonds outstanding				<b><u>\$ 104,554,749</u></b>	<b><u>\$ 111,501,658</u></b>

A summary of the requirements to amortize general obligation bonds outstanding at June 30, 2013 is as follows:

**Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2013**

**Notes to Financial Statements**

Year Ending June 30,	Principal	Interest
2014	\$ 7,190,984	\$ 3,739,135
2015	7,346,109	3,454,629
2016	6,893,794	3,219,245
2017	6,983,574	2,974,010
2018	6,727,142	2,732,506
2019-2023	32,348,159	10,814,362
2024-2028	29,903,559	4,956,497
2029-2033	7,161,428	884,504
	<u>\$ 104,554,749</u>	<u>\$ 32,774,888</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.

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 January 1, 2013. If principal advances on the revised Series 2003 Bond of \$9,423,795 are not made, the interest savings from the rate reduction will be \$707,706. The rate on the Series 2006 Bond decreased from 3.00% per annum to 2.25% per annum January 1, 2013. If principal advances on the revised Series 2006 Bond of \$11,187,809 are not made, the interest savings from the rate reduction will be \$515,349.

Revenue bonds: A summary of revenue bond transactions for the fiscal years ended June 30, 2013 and 2012 is as follows:

	2013	2012
Beginning, July 1	\$ 33,890,162	\$ 23,727,659
Bonds retired/refunded	(1,725,000)	(1,225,000)
Bonds issued	11,225,334	11,387,503
Bonds outstanding at June 30	43,390,496	33,890,162
Unamortized discount/premium, net	(81,695)	(67,983)
Revenue bonds outstanding at June 30, adjusted for unamortized discount/premium	43,308,801	33,822,179
Less current portion	(1,957,500)	(1,725,000)
	<u>\$ 41,351,301</u>	<u>\$ 32,097,179</u>

**Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2013**

**Notes to Financial Statements**

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

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2013	2012
Series 2007 VRA	11/9/2007	\$ 17,000,000	-	<b>\$ 14,025,000</b>	\$ 14,875,000
Series 2009 VRA	11/17/2009	7,500,000	-	<b>6,750,000</b>	7,125,000
Series 2010 VRA	10/8/2010	10,000,000	-	<b>9,500,000</b>	9,100,161
Series 2011 VRA	10/21/2011	8,179,745	-	<b>8,179,745</b>	2,790,001
Series 2012 VRA	12/19/2012	4,935,751	-	<b>4,935,751</b>	-
Wastewater Utility Revenue Bonds outstanding				<b>\$ 43,390,496</b>	<b>\$ 33,890,162</b>

A summary of the requirements to amortize revenue bonds outstanding at June 30, 2013 is as follows:

Year Ending June 30,	Principal
2014	\$ 1,957,500
2015	2,369,150
2016	2,369,150
2017	2,369,150
2018	2,369,150
2019-2023	11,845,749
2024-2028	11,845,749
2029-2033	7,620,748
2034-2038	644,150
	<b>\$ 43,390,496</b>

Wastewater revenue bonds, Series 2007 VRA loan, Series 2009 VRA loan, Series 2010 VRA loan, Series 2011 VRA loan and Series 2012 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, 2013 and 2012 were \$12,485,748 and \$7,485,748, 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. Reference should be made to the

**Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2013**

**Notes to Financial Statements**

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Comprehensive Annual Financial Report of the City for a further description of the plan. Retirement expense was \$729,296 and \$754,958 for the years ended June 30, 2013 and 2012, respectively.

**Note 8. Commitments**

Commitments for completion of capital projects authorized at June 30, 2013 and 2012 were \$12,485,748 and \$7,485,748, 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.

**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, 2013 as the City has not funded a trust for the OPEB liability. Using the most recent OPEB plan valuation date of July 1, 2012, 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:

	<b>2013</b>	2012
Net beginning OPEB obligation	<b>\$ 542,079</b>	\$ 425,777
Annual required contributions	<b>130,390</b>	175,829
Interest on net OPEB obligation	<b>17,748</b>	18,131
Adjustment to ARC	<b>(17,494)</b>	(16,836)
Annual OPEB cost	<b>130,644</b>	177,124
Less: contributions made	<b>91,665</b>	60,822
Increase in net OPEB obligation	<b>38,979</b>	116,302
Net ending OPEB obligation	<b>\$ 581,058</b>	\$ 542,079

**Wastewater Utility Fund of the City of Norfolk, Virginia**  
**June 30, 2013**

**Notes to Financial Statements**

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The total unfunded actuarial accrued liability (UAAL) for 2013 and 2012 is \$1,172,960 and \$1,284,375, respectively, and is allocated to the Fund on the same basis as the ARC. The allocation is based on covered payroll and does not purport to represent the OPEB liability of the Fund on a stand-alone basis. Reference should be made to the Comprehensive Annual Financial Report of the City for further information.

**Note 12. Subsequent Events**

General Obligation Capital Improvement and Refunding Bonds, Series 2013A (Tax-Exempt); General Obligation Capital Improvement and Refunding Bonds, Series 2013B (Taxable); and General Obligation Qualified Energy Conservation Bonds, Series 2013C (Taxable): On November 7, 2013, the City issued its \$130,990,000 General Obligation Capital Improvement and Refunding Bonds, Series 2013A (Tax-Exempt), \$81,715,000 General Obligation Capital Improvement and Refunding Bonds, Series 2013B (Taxable) and its \$2,470,000 General Obligation Qualified Energy Conservation Bonds, Series 2013C (Taxable) (collectively the "2013 Bonds"). Wastewater's portion of the 2013 Bonds included \$8,565,000 of new money bonds issued as part of the Series 2013A Bonds. The aggregate true interest cost of the 2013 Bonds was 3.97%. No portion of the aggregate total savings of \$3,804,009, or 5.16% of the refunded bonds, benefitted the Wastewater Utilities Fund.

Forward General Obligation Refunding: On October 2, 2013, the City entered into a Bond Purchase and Loan Agreement with Banc of America Preferred Funding Corporation, under which the City has the ability to issue three separate bonds in the aggregate principal amount of \$37,960,000 (collectively, the "Forward Refunding Bonds") to currently refund its outstanding General Obligation Refunding Bonds, Series 2004, General Obligation Capital Improvement and Refunding Bonds, Series 2005 and General Obligation Capital Improvement and Refunding Bonds, Series 2006 on June 2, 2014, March 2, 2015 and October 1, 2014, respectively.

The Wastewater Utilities Fund's portion of the Forward Refunding Bonds is \$4,197,233, which will be used to defease \$4,189,681 of Wastewater's Series 2004, Series 2005 and Series 2006 on their respective call dates.

The City has the ability to terminate the Forward Refunding Agreement without issuing any or all of the Forward Refunding Bonds, and Banc of America is not required to purchase any Forward Refunding Bond unless the City satisfies certain advance conditions specified in the Forward Refunding Agreement.

Wastewater System Revenue Bond, Series 2013: On December 12, 2013, the City issued a \$10,000,000 Wastewater System Revenue Bond, with the Virginia Resources Authority (VRA). In conjunction with the State Water Control Board, the VRA administers and manages the Virginia Water Facilities Revolving Fund. The Bond was sold at a true interest cost of 0.00%.

**Note 13. Accounting Pronouncements Issued But Not Yet Implemented**

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

- 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 deferred outflows of resources and deferred inflows of resources in Concepts Statement No. 4, *Elements of*

**Notes to Financial Statements**

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*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.

- 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.
- GASB Statement 69: *Government Combinations and Disposals of Government Operations*. This Statement provides specific accounting and financial reporting guidance for the combination and disposal of entities in a governmental environment. This Statement also enhances the disclosures around these types of activities to improve the usefulness of financial reporting in this area. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. Earlier application is encouraged.
- GASB Statement 70: *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. This Statement requires specific accounting for governments that extend a non-exchange financial guarantee as well as governments that have issued obligations guaranteed in non-exchange transactions. This Statement also specifies the information required to be disclosed in relation to these types of transactions. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. Earlier application is encouraged.

Wastewater Utility Fund of the City of Norfolk, Virginia  
June 30, 2013

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, 2012	\$ -	\$ 1,172,960	\$1,172,960	0%	\$ 3,437,126	34.1%
July 1, 2011	-	1,284,375	1,284,375	0%	3,752,922	34.2%
July 1, 2010	-	1,293,359	1,293,359	0%	3,780,459	34.2%

**Wastewater Utility Fund of the City of Norfolk, Virginia**  
**June 30, 2013**

**Supplementary Schedule**

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

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

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 financial statements of the Wastewater Utility Fund of the City of Norfolk, Virginia (the Fund), which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in fund net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 23, 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered 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 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 23, 2013