

Wastewater Utility Fund

An Enterprise Fund of the City of Norfolk, Virginia

Financial and Compliance Report **Fiscal Year Ended June 30, 2016**

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

Financial and Compliance Report
Fiscal Year Ended June 30, 2016

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KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Wastewater Utility Fund of the City of Norfolk, Virginia (the Fund), as of and for the year ended June 30, 2016, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the Specifications for Audits of Counties, Cities, and Towns (Specifications) issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Wastewater Utility Fund of the City of Norfolk, Virginia, as of June 30, 2016, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

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

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 8, the schedule of funding in progress for Other Post-Employment Benefits Plans on page 29, schedule of contributions on page 30, and schedule of proportionate share of the net pension liability on page 31 be present to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fund's basic financial statements. The Supplemental Debt Capacity Information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplemental Debt Capacity Information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Debt Capacity Information are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2016 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 City's internal control over financial reporting and compliance.

KPMG LLP

Norfolk, Virginia
December 22, 2016

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, VA
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2016

The following discussion and analysis of the Wastewater Utility Fund of the City of Norfolk, VA's (the "Fund") financial performance provides an overview of the Fund's financial activities for the fiscal year ended June 30, 2016. The intent of the management discussion and analysis is to provide a summarized view of the Fund's financial performance and should be reviewed in conjunction with the basic financial statements and supporting notes for a complete understanding of the Fund's financial performance.

Financial Highlights for the Fiscal Year 2016

- For the fiscal year ended June 30, 2016, the Fund reported net operating revenues of \$28,014,182, a decrease of 0.81% from fiscal year 2015 net operating revenues.
- The Fund's total operating expenses for fiscal year 2016 were \$16,707,522, an increase of 0.03% from fiscal year 2015 operating expenses.
- Total net position was \$114,579,823 as of June 30, 2016 and was comprised of net investment in capital assets of \$105,948,343, restricted net position of \$125,878 and unrestricted net position of \$8,505,602. Total net position is defined as total assets and deferred outflows of resources less total liabilities and deferred inflows of resources.
- The Fund's total cash and investments as of June 30, 2016 were \$12,985,333.
- As of June 30, 2016, the Fund had outstanding general obligation and revenue bonds payable and unamortized bond premium of \$157,635,815. This was a 1.5% decrease in the outstanding bonds payable as compared to June 30, 2015. During the fiscal year 2016, the Fund was awarded a \$6,000,000 Virginia Clean Water Revolving Loan at 0% interest.

Financial Statements Overview

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

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

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

The statement of cash flows, when taken together with the statement of net position and statement of revenues, expenses, and changes in net position, provides the reader a complete "snapshot" of the financial condition and results of operations of the Fund as of June 30, 2016 and for the year then ended.

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

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, VA
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2016

Financial Analysis

The following financial analysis provides insight into the factors that had a significant impact on the variance between fiscal years 2016 and 2015.

	2016	2015
Current assets	\$ 17,642,825	\$ 24,030,634
Capital assets	261,039,033	249,209,827
Deferred outflows of resources	3,096,483	3,438,583
Total assets and deferred outflows of resources	\$ 281,778,341	\$ 276,679,044
Current liabilities	\$ 15,245,668	\$ 14,585,156
Long-term liabilities	151,577,903	153,469,690
Deferred inflows of resources	374,947	1,495,858
Total liabilities and deferred inflows of resources	\$ 167,198,518	\$ 169,550,704
Net position:		
Net investment in capital assets	\$ 105,948,343	\$ 93,518,618
Restricted	125,878	3,438,506
Unrestricted	8,505,602	10,171,216
Total net position	\$ 114,579,823	\$ 107,128,340

Overall, total net position increased by approximately \$7.5 million from fiscal year 2015. Net investment in capital assets were 92.5% of the total net position at June 30, 2016. Restricted resources were 0.1% of the net position. The remaining unrestricted resources of \$8,505,602 may be used to meet to the Fund's ongoing obligations to citizens and creditors.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, VA
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2016

The table below provides a summary of revenues, expenses and changes in net position for the years ended June 30, 2016 and 2015.

	2016	2015
Operating revenues, net	\$ 28,014,182	\$ 28,241,721
Operating expenses	16,707,522	16,702,281
Operating income	11,306,660	11,539,440
Non-operating revenues	192,078	214,199
Non-operating expenses	(4,047,255)	(3,939,687)
Total non-operating expenses	(3,855,177)	(3,725,488)
Change in net position	7,451,483	7,813,952
Net position - beginning, as previously reported	107,128,340	102,262,928
Effect of implementation of GASB 68	-	(2,948,540)
Net position - beginning, as restated for 2015	107,128,340	99,314,388
Total net position - end	\$ 114,579,823	\$ 107,128,340

For the fiscal year ending June 30, 2016, the Fund reported net revenue of \$28,206,260 and expenses of \$20,754,777, a net increase in net position of \$7,451,483. The operating revenue decrease of 0.81% from fiscal year 2015 was the result of a decrease in consumption but is in line with the approved budgeted amount for the fiscal year ended June 30, 2016.

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, VA
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2016

A summary of the Fund's net capital assets at June 30, 2016 and 2015 are as follows:

	2016	2015
Land	\$ 1,663,818	\$ 1,663,818
Buildings	5,926,589	3,643,762
Equipment	240,769,877	230,834,439
Construction in progress	12,678,749	13,067,808
	\$ 261,039,033	\$ 249,209,827

The Fund's capital assets totaled \$261,039,033 (net of accumulated depreciation) and account for 93.7% of total assets at June 30, 2016. The net capital assets increased by \$11,829,206 from fiscal year 2015, representing assets placed in service of \$18,392,355, and a decrease in construction in progress of \$389,059, less the depreciation of assets in the amount of \$6,174,090. During fiscal year 2016, major capital projects spending included designing and constructing pump stations and replacing sewer gravity and force mains.

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

Debt Administration

The City of Norfolk (the "City") manages debt in accordance with the City's debt policies. The Fund's general obligation bonds are backed by the full faith and credit of the City. The Fund's revenue bonds are secured by the revenue generated by the Fund's wastewater collection system. Bond proceeds are used to finance capital projects that improve the City's wastewater collection system. As of June 30, 2016, the Fund had outstanding general obligation and revenue bonds payable of \$157,635,815. A summary of the Fund's outstanding bonds as of June 30, 2016 and 2015 is as follows:

	2016	2015
Revenue bonds	\$ 61,170,943	\$ 55,545,923
General obligation bonds	96,464,872	104,530,817
Total	\$ 157,635,815	\$ 160,076,740

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

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

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, VA
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2016

Future Outlook

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

Contacting the Fund's Financial Management

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

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, VA
Statement of Net Position
June 30, 2016

ASSETS

Current assets:	
Cash and short-term investments (Note 2)	12,858,600
Restricted short-term investments (Note 2)	855
Receivables (net)	
Accounts (net) (Note 3)	3,430,553
Unbilled accounts (Note 4)	1,165,294
Due from other funds	28,909
Accrued investment income	1,818
Inventories	30,918
Restricted cash held in escrow (Note 2)	125,878
Total current assets	17,642,825
Non-current assets:	
Capital assets (Note 5):	
Land and improvements	14,342,567
Buildings and equipment	328,227,499
Accumulated depreciation	(81,531,033)
Capital assets, net	261,039,033
Total assets	278,681,858
Deferred outflows of resources	
Related to pensions (Note 7)	532,267
Loss on defeasance of bonds (Note 6)	2,564,216
Total deferred outflows	3,096,483
Total assets and deferred outflows of resources	\$ 281,778,341

(continued)

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, VA
Statement of Net Position (Continued)
June 30, 2016

LIABILITIES

Current liabilities:

Vouchers payable	\$	263,570
Vouchers payable for CIP Projects		2,157,294
Contract retainage		666,575
Due to Capital Project fund and other funds		12,281
Accrued interest		1,167,363
Accrued payroll		110,489
Current portion of bonds payable (Note 6)		10,622,683
Compensated absences		216,663
Other current liabilities		28,750
Total current liabilities		15,245,668

Non-current liabilities:

General obligation bonds payable (Note 6)		89,297,765
Revenue bonds payable (Note 6)		57,715,367
Net pension obligation (Note 7)		3,688,518
Compensated absences		156,435
Other post employment benefits (OPEB) (Note 11)		719,818
Total non-current liabilities		151,577,903
Total liabilities		166,823,571

Deferred inflows of resources

Related to pensions (Note 7)		355,001
Gain on defeasance of bonds (Note 6)		19,946
Total deferred inflows of resources		374,947

Total liabilities and deferred inflows of resources		167,198,518
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NET POSITION

Net investment in capital assets		105,948,343
Restricted		125,878
Unrestricted		8,505,602
Total net position	\$	114,579,823

See Notes to Financial Statements

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, VA
Statement of Revenue, Expenses and Changes in Net Position
For the Year Ended June 30, 2016

Operating Revenues:	
Charges for services, net	\$ 27,822,842
Miscellaneous	191,340
Total operating revenues, net	28,014,182
 Operating Expenses:	
Personnel services	4,848,998
Plant operations	2,568,189
Chemicals	36,878
Depreciation and amortization	6,174,090
Pension expense (Note 7)	341,631
OPEB expense (Note 11)	48,923
Administrative expenses	1,379,657
Other	1,309,156
Total operating expenses	16,707,522
Operating Income	11,306,660
 Non-operating revenues (expenses):	
Interest income, net of interest capitalized	13,845
Intergovernmental revenue	149,324
Interest expense and fiscal charges, net of interest capitalized	(2,547,255)
Gain (loss) on sale or disposal of capital assets	28,909
Payments to General Fund	(1,500,000)
Total non-operating expenses, net	(3,855,177)
Change in net position	7,451,483
Total net position - beginning	107,128,340
Total net position - ending	\$ 114,579,823

See Notes to Financial Statements

Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, VA
Statement of Cash Flows
For the Year Ended June 30, 2016

Cash flows from operating activities:

Receipts from customers	\$	27,647,224
Payments to suppliers		(2,501,225)
Payments to employees		(5,394,704)
Other payments		(2,762,021)
Net cash provided by operating activities		16,989,274

Cash flows from non-capital financing activities:

Internal activity, payments to other funds		(255,219)
Intergovernmental revenues		149,324
Payments to general fund		(1,500,000)
Net cash used in non-capital activities		(1,605,895)

Cash flows from capital and relating financing activities:

Proceeds from capital/refunding debt		8,644,987
Proceeds from sale of fixed assets		28,909
Purchases of capital assets		(17,468,732)
Principal paid on capital debt		(10,152,642)
Interest paid (net of bond premium and related costs)		(3,198,538)
Net cash used in capital and related financing activities		(22,146,016)

Cash flows from investing activities:

Proceeds from sale of investments		13,471,030
Purchase of investments		(7,137,841)
Interest and dividends		13,845
Net cash provided by investing activities		6,347,034

Net decrease in cash and cash equivalents		(415,603)
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Cash and short-term investments - beginning of year		13,274,203
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Cash and short-term investments - end of year	\$	12,858,600
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Wastewater Utility Fund
An Enterprise Fund of the City of Norfolk, VA
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2016

Reconciliation of Operating Income to Net Cash

Provided by operating activities:

Operating income	\$	11,306,660
Adjustments to reconcile operating income to net cash		
Provided by operating activities:		
Depreciation and amortization expense		6,174,090
Changes in assets and liabilities:		
Accounts receivable (net), billed and unbilled		(366,958)
Inventories		5,975
Vouchers payable		97,867
Accrued payroll		(13,438)
Net pension obligation		(141,714)
Other liabilities		(73,208)

Net cash provided by operating activities

\$ 16,989,274

Non-cash investing, capital, and financing activities:

Acquisition of capital assets through change in contract retainage	\$	194,649
Acquisition of capital assets through change in vouchers payable		339,915
Capitalized interest		257,039
Decrease in deferred inflows through change in pension obligation		(1,110,025)

See Notes to Financial Statements

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

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 1. Summary of Significant Accounting Policies

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

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

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

New Accounting Standards Adopted: The Fund adopted the following GASB standards effective July 01, 2015:

- GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The requirements of this statement are effective for the financial statements beginning for fiscal periods after June 15, 2015. See footnote 2 for new disclosures. There was no impact on net position or results of operations.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement establishes the hierarchy of GAAP for state and local governments. It is superseded Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The Statement is effective for fiscal years beginning after June 15, 2015.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This statements addresses accounting and financial reporting for certain external investment pools and pool participants. It establishes criteria for the external investment pool to qualify to value investments at amortized costs for financial reporting purposes and requires certain footnote disclosures in relation to these investments. The Statement is effective for the fiscal years beginning after June 15, 2015. See footnote 2 for new disclosures. There was no impact on net position or results of operations.

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, the majority of which are pooled with the City. 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.

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

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

Inventories: Inventories are stated at the lower of cost (using the average cost 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 Position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

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

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

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

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

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

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.

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

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

Impaired capital assets that will no longer be used by the Fund are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the Fund are measured using the method that best reflects the diminished service utility of the capital asset. Any insurance recoveries received as a result of impairment events or changes in circumstances resulting in the impairment of a capital asset are netted against the impairment loss. No impairment of assets was recorded in 2016.

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

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

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

General allocations: The General Fund of the City provides administrative services to the Fund, which totaled \$1,471,457 for the year ended June 30, 2016. 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 \$185,611 for the year ended June 30, 2016.

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

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

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

Net pension liability: In accordance with GASB 68 *Accounting and Financial Reporting for Pensions which amends GASB statement No 27*, certain changes in net pension liability are recorded as deferred inflows and outflows and amortized in future periods using the straight line method. Examples are the differences between actual and projected earnings on investments and effects of change in assumptions.

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

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 2. Cash and Investments

At June 30, 2016, the Fund's cash and investments consisted of the following:

	2016
Cash	12,984,477
External investment pools	856
	\$ 12,985,333
Cash and short-term investments	12,859,455
Restricted cash held in escrow	125,878
	\$ 12,985,333

Deposits: All cash of the Fund is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. Under the Act, any public depository that receives or holds public deposits ("Qualified Public Depositories") shall elect to secure deposits by either the Pooled Method or the Dedicated Method (which became available by amendments made to the Act effective July 1, 2010). The Pooled Method requires any public depository that receives or holds public deposits to pledge collateral, ranging from 50 to 100 percent of the public deposits, to the State Treasury Board to cover public deposits in excess of Federal deposit insurance. The Pooled Method also provides that if any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of participating governmental entities. If the value of the pool's collateral were inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to members of the pool. Under the Dedicated Method, Qualified Public Depositories are responsible for securing their own public deposits, by the pledge and deposit of eligible collateral with qualified escrow agent, equal to or in excess of required collateral amounts, priced at a minimum of 105% to 130% of all public deposits held by the bank, based on rating determined under the Act; and therefore will not be assessed for losses of another bank that is in default or has become insolvent. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks. Both methods of securing public deposits are similar to depository insurance. Funds deposited in accordance with the Act are considered to be fully insured. The City's primary banking institution has elected to be governed by the Dedicated Method.

Investments Investment statutes authorize the Fund to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank) and Asian Development Bank, commercial paper rated A-1 by S & P Global Ratings or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, Virginia State Non-Arbitrage Program (SNAP), PFM Government Series and the State Treasurer's Local Government Investment Pool (LGIP). SNAP, PFM and LGIP investments are valued at amortized cost and qualify as external investment pools per GASB 79. 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
An Enterprise Fund of the City of Norfolk, VA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 2. Cash and Investments (Continued)

At June 30, 2016, the Fund had \$1 deposited in the LGIP which carries a Standard and Poor's rating of AAAM and is included in cash and short-term investments. For the year ended June 30, 2016, the Fund no longer had investments in SNAP Money Market Mutual Funds or PFM Funds Prime Series.

Note 3. Accounts Receivable

Accounts receivable at June 30, 2016 are comprised of the following:

	2016
Wastewater maintenance fees	\$ 3,531,880
Other	748,673
Less allowance for uncollectible accounts	(850,000)
	<u>\$ 3,430,553</u>

The Fund recorded \$303,684 of bad debt expense which was offset against the operating revenue for the fiscal year ended June 30, 2016.

Note 4. Unbilled Accounts Receivable

At June 30, 2016, the Fund recorded \$1,165,294 as unbilled accounts receivable related to unread meters. The associated revenue is included in net charges for services. These amounts were billed in July 2016.

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

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 5. Capital Assets

Capital assets at June 30, 2016 were comprised of the following:

	Balance June 30, 2015	Additions	Retirements / Transfers	Balance June 30, 2016
Nondepreciable assets:				
Land	\$ 1,663,818	\$ -	\$ -	\$ 1,663,818
Construction-in-progress	13,067,808	17,760,846	(18,149,905)	12,678,749
Total nondepreciable assets	\$ 14,731,626	\$ 17,760,846	\$ (18,149,905)	\$ 14,342,567
Depreciable & amortized assets:				
Buildings	\$ 4,691,932	\$ 2,370,847	\$ -	\$ 7,062,779
Equipment	305,315,558	16,021,508	(264,824)	321,072,242
Intangible assets	92,478	-	-	92,478
Total depreciable & amortized assets	\$ 310,099,968	\$ 18,392,355	\$ (264,824)	\$ 328,227,499
Less accumulated depreciation for				
Buildings	\$ (1,048,170)	\$ (88,020)	\$ -	\$ (1,136,190)
Equipment	(74,481,119)	(6,086,070)	264,824	(80,302,365)
Intangible assets	(92,478)	-	-	(92,478)
Total accumulated depreciation	\$ (75,621,767)	\$ (6,174,090)	\$ 264,824	\$ (81,531,033)
Total depreciable assets, net	\$ 234,478,201	\$ 12,218,265	\$ -	\$ 246,696,466
Total capital assets, net	\$ 249,209,827	\$ 29,979,111	\$ (18,149,905)	\$ 261,039,033

The Fund recorded \$257,039 of capitalized interest which consisted of \$260,813 interest expense and \$3,774 of interest income for the year ending June 30, 2016.

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

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 6. Long-Term Obligations

General obligation bonds: A summary of general obligation bond transactions for the fiscal year ended June 30, 2016 is as follows:

	2016
Beginning, July 1	\$ 97,389,271
Bonds retired	(7,132,675)
Bonds outstanding at June 30	90,256,596
Unamortized discount/premium, net	6,208,276
General obligation bonds outstanding at June 30, adjusted for unamortized discount/premium	96,464,872
Less current portion	(7,167,107)
	\$ 89,297,765

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

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2016
Series 2003 VRA	4/8/2003	\$ 9,423,794	2.00%	\$ 4,774,281
Series 2004 VRA	9/17/2004	11,187,809	3.10%	6,515,785
Series 2005 VRA	3/14/2006	11,500,000	2.25%	7,275,569
Series 2006 VRA	9/28/2006	14,250,000	none	8,550,000
Series 2008 Capital Improvement	6/30/2008	153,605,000	4.70 - 5.00%	1,145,000
Series 2009 Refunding	5/21/2009	21,895,000	3.00 - 5.00%	293,920
Series 2010 Capital Improvement (A&B)	1/21/2010	11,790,682	1.75 - 5.96%	8,808,095
Series 2010 G Refunding	10/19/2010	6,867,368	4.00 - 5.00%	6,149,562
Series 2012 A Refunding	5/30/2012	82,179,384	2.00 - 5.00%	5,823,657
Series 2012 C Capital Improvement	6/28/2012	21,625,000	3.00 - 5.00%	10,810,000
Series 2013 A Capital Improvement	11/7/2013	7,595,000	2.00 - 5.00%	6,820,000
Series 2014 Refunding	4/2/2014	12,923,780	2.00 - 5.00%	12,923,780
Series 2014 A Refunding	6/2/2014	1,723,575	1.40%	275,625
Series 2014B Refunding	10/1/2014	647,450	3.29%	628,840
Series 2014C Refunding	9/30/2014	8,023,133	2.00 - 5.00%	7,856,156
Series 2015 Refunding	3/2/2015	1,826,208	3.32%	1,606,326
				\$ 90,256,596

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

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 6. Long-Term Obligations (Continued)

A summary of the requirements to amortize general obligation bonds outstanding at June 30, 2016 is as follows:

Year Ending June 30, 2016	Principal	Interest
2017	\$ 7,167,107	\$ 3,177,757
2018	6,807,077	2,845,988
2019	6,894,302	2,794,230
2020	6,811,755	2,602,583
2021	7,101,002	2,196,516
2022-2026	35,086,454	7,662,217
2027-2031	17,103,898	2,402,314
2032-2036	3,285,000	185,813
	\$ 90,256,596	\$ 23,867,418

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

General Obligation Bonds - new and refunding

The deferred outflow amortization for loss on refunding of bonds recorded for fiscal year 2016 was \$264,925. The deferred inflow amortization for gain on refunding of bonds was \$10,886. As of June 30, 2016, the total deferred inflows and outflows for bond refundings were \$19,946 and \$2,564,216, respectively.

Revenue bonds: A summary of revenue bond transactions for the fiscal year ended June 30, 2016 is as follows:

Beginning, July 1	2016 \$ 55,545,923
Bonds retired	(3,019,968)
Bonds issued	8,644,988
Bonds outstanding at June 30	61,170,943
Less current portion	(3,455,576)
	\$ 57,715,367

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

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 6. Long-Term Obligations (Continued)

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

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2016
Series 2007 VRA	11/9/2007	\$ 17,000,000	-	\$ 11,475,000
Series 2009 VRA	11/17/2009	7,500,000	-	5,625,000
Series 2010 VRA	10/8/2010	10,000,000	-	8,000,000
Series 2011 VRA	10/21/2011	9,300,000	-	8,137,500
Series 2012 VRA	12/19/2012	11,609,355	-	10,729,389
Series 2013 VRA	12/12/2013	10,000,000	-	9,750,000
Series 2015 VRA	3/2/2015	10,000,000	-	7,424,375
Series 2016 VRA	5/25/16	6,000,000	-	29,679
Wastewater Utility Revenue Bonds outstanding				\$ 61,170,943

A summary of the requirements to amortize revenue bonds outstanding at June 30, 2016 is as follows:

Year Ending June 30,	Principal
2017	\$ 3,455,576
2018	3,670,864
2019	3,641,185
2020	3,641,185
2021	3,641,185
2022-2026	18,205,925
2027-2031	16,930,925
2032-2036	7,798,475
2037-2041	185,624
	\$ 61,170,943

Wastewater revenue bonds, Series 2007 VRA loan, Series 2009 VRA loan, Series 2010 VRA loan, Series 2011 VRA loan, Series 2012 VRA loan, Series 2013 VRA loan, Series 2015 VRA loan and Series 2016 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 from revenues.

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

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 6. Long-Term Obligations (Continued)

On April 21, 2016, the City issued a \$6,000,000 Wastewater System Revenue Bond, with the Virginia Resources Authority (VRA). In conjunction with the state water control board, the VRA administers and manages the Virginia Water Facilities Revolving Fund and the Bond was sold at a true interest cost of 0%. As of June 30, 2016, \$29,679 had been drawn to pay for capital project expenses. Additional draws for project expenses of \$2,401,247 and \$6,214,062 from bond issuances in fiscal years 2013 and 2015, respectively, resulted in total VRA drawdowns of \$8,644,988.

Bonds authorized and unissued as of June 30, 2016 were \$29,890,748.

Note 7. Employees' Retirement System (ERS)

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

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

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

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

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

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

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016**

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

Contributions: Section 37 of the Code of the City of Norfolk, Virginia, established the authority under which the City's obligation to contribute to the Plan is determined. Contribution requirements are actuarially determined at the end of each fiscal year and paid by the City in the ensuing year. Effective January 8, 2015, all Plan members pay contribution on a salary reduction basis in the amount of 5.00% of earnable compensation, with the exception of City Council members hired before October 5, 2010. Total employer contributions made by the Fund to the ERS plan were \$532,267 for the year ended June 30, 2016. These contributions combined with employee contributions of \$165,179 were expected to cover the actuarially determined contributions.

Discount rate: The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that Plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The GASB 67 depletion schedule, as prepared by the actuary based on those assumptions was presented for 99 years. The projected benefit payments ended by fiscal year end 2099 and the pension plan's fiduciary net position was projected to be available to make projected future payments and pay administrative expenses until fiscal year 2075. Projected benefit payments are discounted at the long-term expected return of 7.045% (net of investment expenses) to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.8% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of the measurement date of June 30, 2015 was 7%.

Actuarial assumptions: The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method:	Entry Age Normal Cost Method
Amortization method:	Level percent closed, 20-years layers
Amortization growth rate:	3.00%
Asset valuation method:	3-year Smoothed Value
Inflation rate:	3.00%
Salary increase-General Employees:	Average annual salary increases of 5.64% over a 30-year career; based on rates that vary by years of service and are compounded annually
Investment rate of return:	7.00%
Mortality:	RP-2000 Combined Healthy Mortality projected to 2010 by Scale AA for healthy lives; RP-2000 Disabled Mortality projected to 2010 by Scale AA for disabled lives.

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

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

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the following table:

Asset Class	30-year Long-term Expected Real Rate of Return	Target Allocations
Private Core Real Estate	5.75%	5.0%
Master Limited Partnerships	7.50%	5.0%
Core Fixed Income	1.75%	35.0%
Core Plus Income	2.75%	0.0%
International Equity (AWI ex US)	5.90%	22.0%
Domestic Equity (AWI ex US)	4.50%	33.0%
		<u>100.00%</u>

Net Pension Liability: The net pension liability was measured as of June 30, 2015 with an actuarial valuation date of June 30, 2015. Pension expense and liability are allocated to governmental and enterprise funds based on the actual employer contributions. The employer contributions made by the Waste Water Utility in fiscal year 2016 of \$532,267 are included as deferred outflows. As of June 30, 2016, the Fund reported a net pension liability of \$3,688,518. The Fund's proportion of the collective net pension liability was based on an allocation relative to the actual contributions made towards the total actuarially determined employer contributions amongst participating funds of the City of Norfolk (Participating funds include Water, Wastewater, Governmental Activities, Parking, and Fleet Management). At June 30, 2016 the Fund's proportion was 1.74% compared to 1.72% at June 30, 2014.

Sensitivity of Wastewater Utility Fund's proportionate share of the net pension liability to changes in the discount rate: The following presents the Fund's proportionate share of the net pension liability using the discount rate of 7.00%, as well as what the Fund's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
ERS Net Pension Liability	\$ 5,957,609	\$ 3,688,518	\$ 1,754,150

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

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

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

Pension expense and deferred inflows and outflows of resources related to the ERS Pension: Total Pension expense included in the Fund for the City is \$341,631. At June 30, 2016, deferred inflows reported in the City's financial statements are as follows:

	Deferred Inflows of Resources
Net difference between expected and actual experience	\$ 145,631
Net difference between projected and actual earnings on plan investments	212,786
Net change in proportionate share	(3,416)
	\$ 355,001

Deferred outflows related to pension contributions made after the measurement date by the Fund of \$532,267 will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts related to deferred inflows or resources will be recognized in pension expense as follows:

Year	Deferred Inflows
2017	\$ 179,202
2018	179,202
2019	179,202
2020	(181,921)
2021	(684)
	\$ 355,001

Deferred inflows and outflows related to changes in proportionate share between the governmental and business-type activities have not been recognized as amounts are not material.

Note 8. Commitments and Contingencies

Commitments for completion of capital projects authorized at June 30, 2016 were \$13,394,594.

Note 9. Litigation

From time-to-time, the Fund is a defendant in a number of lawsuits. Although it is not possible to determine the final outcome of these matters, management and the City Attorney are of the opinion that the ultimate liability will not be material and will not have a significant effect on the Fund's financial condition.

Note 10. Risk Management

The Fund is exposed to various risks of loss related to: theft of, damage to, and destruction of assets; injuries to employees; general liability; automobile liability; crime and employee dishonesty; professional liability; and directors' and officers' liability. The Fund's coverage is provided through the City's combination of purchased insurance policies and self-insurance plans.

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

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 11. Other Postemployment Benefits (OPEB)

The City provides post-retirement health care benefits, in accordance with state statutes, which require extending access to healthcare benefits to certain retirees. General City employees are eligible to participate at the earlier of age 55 and 15 years of creditable service or 25 years of creditable service. Employees who retire on accidental disability are also eligible. Retirees that elect to participate may purchase health care coverage using the same health care plans and premium structures available to active employees. Retiree participation, plan/benefit elections and contributions are administered by the City's Retirement Bureau based on the participation guidelines established by the Norfolk City Council. Effective January 1, 2014, the City eliminated health care coverage for post 65 retirees (e.g., retirees eligible for Medicare).

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The actuarial valuation was performed as of July 1, 2014 with results projected for the fiscal year ended June 30, 2016.

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 total unfunded actuarial accrued liability (UAAL) for 2016 is \$ 742,524, 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.

The Fund and the City use the pay as you go method to calculate the OPEB liability for June 30, 2016 as the City has not funded a trust for the OPEB liability. Using the most recent OPEB plan valuation date of July 1, 2014, 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:

	2016
Net beginning OPEB obligation	\$ 670,896
Additional adjustment required	(28,660)
Beginning balance per actuary	642,236
Annual required contributions	97,684
Interest on net OPEB obligation	27,734
Adjustment to ARC	(25,753)
Annual OPEB cost	99,665
Less: contributions made	22,082
Increase in net OPEB obligation	48,923
Net ending OPEB obligation	\$ 719,818

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

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 12. Accounting Pronouncements Issued But Not Yet Implemented

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

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, replaces GASB Statement No. 43. The statement addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The statement follows the framework for financial reporting of defined benefit OPEB plans in Statement 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The statement requires more extensive note disclosures and required supplementary information related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. The statement also sets forth note disclosure requirements for defined contribution OPEB plans. The statement is effective for fiscal years beginning after June 15, 2016.

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

GASB Statement No. 77, *Tax Abatement Disclosures*. This statement requires state and local governments to disclose information about tax abatement agreements. The disclosures required by this statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues. The statement is effective for fiscal years beginning after December 15, 2015.

GASB Statement No. 80, *Blending Requirements for Certain Component Units*—an amendment of GASB Statement No. 14. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The statement is effective for fiscal years beginning after December 15, 2016.

GASB Statement No. 82, *Pension Issues*—an amendment of GASB Statements No. 67, No. 68, and No. 73. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

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

**Required Supplementary Information
For the Fiscal Year Ended June 30, 2016**

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

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Estimated covered payroll (c)	UAA as a percentage of covered payroll (b-a)/c
July 1, 2015		\$ 742,524	\$ 742,524		3,866,402	19.2%
July 1, 2014	-	787,929	787,929	-	3,709,235	21.2%
July 1, 2013	-	1,074,814	1,074,814	-	3,707,333	29.0%

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

**Required Supplementary Information
For the Fiscal Year Ended June 30, 2016**

**CITY OF NORFOLK
Norfolk Employee Retirement System
Waste Water Utility Fund**

Schedule of Employer Contributions (unaudited)
Last 10 Fiscal Years
(Amounts in thousands)

Fiscal Years	Actuarially Determined Required Contributions*	Employer Contributions*	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll**	Contributions as a % of Covered Employee Payroll
2016	\$ 532	\$ 532	\$ -	\$ 3,114	17.09%
2015	667	609	58	3,119	19.53%
2014	669	669	-	3,098	21.59%
2013	729	729	-	2,980	24.46%
2012	755	755	-	2,971	25.41%
2011	739	739	-	3,069	24.08%
2010	613	613	-	3,273	18.73%
2009	529	529	-	3,161	16.74%
2008	479	479	-	3,080	15.55%
2007	482	482	-	2,929	16.46%

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

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

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

**Required Supplementary Information
For the Fiscal Year Ended June 30, 2016**

**CITY OF NORFOLK
Norfolk Employee Retirement System
Waste Water Utility Fund**

Schedule of Proportionate Share of the Net Pension Liability (unaudited)
Last Two Fiscal Years
(Amounts in thousands)

Fiscal Years	Proportionate Share as a percent of Employer Contribution	Proportionate Share of the Net Pension Liability	Employer's Covered Employee Payroll**	Proportionate Share of Net Pension Liability as a percent of Covered Payroll	Plan Fiduciary Net Position as a percent of Total Pension Liability
2016	1.74%	\$ 3,689	\$ 3,114	118.46%	82.74%
2015	1.72%	\$ 2,846	\$ 3,119	91.25%	86.50%

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

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

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

Other Supplementary Information
For the Fiscal Year Ended June 30, 2016

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

Fiscal Year	Revenue	Operating Expenses	Available for Debt Service	Debt Service			Coverage
	Available for Debt Service (1)	Less Depreciation & Amortization (2)		Principal	Interest	Total	
2012	\$ 25,695,602	\$ 10,860,728	\$ 14,834,874	\$ 1,225,000	\$ -	\$ 1,225,000	12.11
2013	25,898,789	11,541,897	14,356,892	1,725,000	-	1,725,000	8.32
2014	27,414,892	10,767,704	16,647,188	1,957,500	-	1,957,500	8.50
2015	28,241,721	10,581,959	17,659,762	2,490,000	-	2,490,000	7.09
2016	28,028,027	10,347,338	17,680,689	3,019,967	-	3,019,967	5.85

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

2. Includes operating expenses less depreciation/amortization and payment in lieu of taxes (PILOT).



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the Wastewater Utility Fund of the City of Norfolk, Virginia (the Fund), which comprise the statement of net position as of June 30, 2016, and the related statement of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated December 22, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Norfolk, Virginia
December 22, 2016