



Wastewater Utility Fund of the City of Norfolk, Virginia

**Financial and Compliance Report
Year Ended June 30, 2009**

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KPMG LLP
Suite 2100
999 Waterside Drive
Norfolk, VA 23510

Independent Auditors' Report

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

We have audited the accompanying statements of net assets of the Wastewater Utility Fund of the City of Norfolk, Virginia (the Fund) as of June 30, 2009 and 2008, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the City of Norfolk. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in note 1 to the financial statements, the accompanying financial statements present only the 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 U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund of the City of Norfolk, Virginia as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

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



In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2010 on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

January 19, 2010

Wastewater Utility Fund of the City of Norfolk, Virginia

Statements of Net Assets
June 30, 2009 and 2008

	2009	2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,057	\$ 2,836,730
Receivables:		
Accounts (net)	1,954,988	3,095,876
Unbilled accounts	987,990	1,235,700
Other receivables	446	2,754
Inventories	46,488	46,488
Restricted cash held in escrow	204,568	156,538
Restricted short term investments	16,935,099	28,041,294
Total current assets	<u>20,139,636</u>	<u>35,415,380</u>
Capital Assets:		
Non-depreciable assets	17,837,455	22,335,760
Depreciable assets, net	160,090,330	140,799,202
Total noncurrent assets	<u>177,927,785</u>	<u>163,134,962</u>
Total assets	<u>198,067,421</u>	<u>198,550,342</u>
LIABILITIES		
Current liabilities:		
Vouchers payable	270,531	250,788
Vouchers payable for CIP Projects	2,729,198	1,175,176
Contract retainage	680,196	487,270
Due to Capital Project fund and other funds	932,888	6,697,093
Accrued interest	1,123,189	772,900
Accrued payroll	96,204	107,073
Payable to employee retirement system	528,888	352,800
Current portion of bonds payable	7,010,615	6,150,117
Compensated absences	191,775	218,163
Other liabilities	204,304	341,059
Total current liabilities	<u>13,767,788</u>	<u>16,552,439</u>
Noncurrent liabilities:		
General obligation bonds payable	92,599,574	96,702,854
Revenue bonds payable	13,092,438	7,359,833
Liability for other post employment benefits (OPEB)	167,397	126,592
Compensated absences	149,161	112,137
Total noncurrent liabilities	<u>106,008,570</u>	<u>104,301,416</u>
Total liabilities	<u>119,776,358</u>	<u>120,853,855</u>
NET ASSETS		
Invested in capital assets, net of related debt	65,225,158	52,922,158
Restricted	16,935,099	28,041,294
Unrestricted	(3,869,194)	(3,266,965)
Total net assets	<u>\$ 78,291,063</u>	<u>\$ 77,696,487</u>

See Notes to Financial Statements

Wastewater Utility Fund of the City of Norfolk, Virginia

Statements of Revenues, Expenses and Changes in Fund Net Assets

Years Ended June 30, 2009 and 2008

	2009	2008
Operating revenues:		
Charges for services	\$ 23,125,447	\$ 24,917,036
Miscellaneous	183,595	172,390
Total operating revenues	23,309,042	25,089,426
Operating expenses:		
Personnel services	4,687,564	4,479,932
Plant operations	2,491,899	2,059,011
Chemicals	120,473	96,869
Provision for bad debts	385,961	577,686
Depreciation	4,361,725	3,702,273
Retirement contribution	661,386	352,800
OPEB expense	40,805	126,592
Administrative expenses	1,459,623	1,568,756
Other	2,450,452	3,290,566
Total operating expenses	16,659,888	16,254,485
Operating income	6,649,154	8,834,941
Nonoperating revenue (expenses):		
Interest income, net of interest capitalized	12,795	558,712
Interest expense and fiscal charges, net of interest capitalized	(4,484,588)	(2,359,248)
Loss on sale or disposal of fixed assets	(82,785)	(534)
Total nonoperating expenses	(4,554,578)	(1,801,070)
Income before contributions and transfers	2,094,576	7,033,871
Capital contributions	-	43,240
Transfers out	(1,500,000)	(1,632,612)
Change in net assets	594,576	5,444,499
Total net assets - beginning	77,696,487	72,251,988
Total net assets - ending	\$ 78,291,063	\$ 77,696,487

See Notes to Financial Statements

Wastewater Utility Fund of the City of Norfolk, Virginia

Statements of Cash Flows

Years Ended June 30, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 24,313,987	\$ 23,340,373
Payments to suppliers	(2,592,629)	(3,702,264)
Payments to employees	(5,253,720)	(4,920,109)
Other payments/receipts	(3,966,206)	(4,889,340)
Net cash provided by operating activities	<u>12,501,432</u>	<u>9,828,660</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Internal activity, payments to other funds	(5,764,205)	(3,507,605)
Transfers out	(1,500,000)	(1,632,612)
Net cash used in noncapital financing activities	<u>(7,264,205)</u>	<u>(5,140,217)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of debt	8,453,906	43,515,845
Contributed capital	-	43,240
Purchases of capital assets	(17,490,385)	(21,242,014)
Principal paid on capital debt	(6,150,117)	(5,031,831)
Refunding of debt principal	(1,520,439)	-
Interest paid on capital debt	(2,427,825)	(2,460,021)
Net cash provided (used) by capital and related financing activities	<u>(19,134,860)</u>	<u>14,825,219</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(8,526,895)	(43,841,836)
Proceeds from sale or maturity of investments	19,633,090	17,435,798
Interest and dividends	12,795	558,712
Net cash provided (used) in investing activities	<u>11,118,990</u>	<u>(25,847,326)</u>
Net decrease in cash and cash equivalents	<u>(2,778,643)</u>	<u>(6,333,664)</u>
Cash and cash equivalents - beginning of year	<u>2,993,268</u>	<u>9,326,932</u>
Cash and cash equivalents - end of year	<u>\$ 214,625</u>	<u>\$ 2,993,268</u>

(Continued)

Wastewater Utility Fund of the City of Norfolk, Virginia

Statements of Cash Flows (Continued)

Years Ended June 30, 2009 and 2008

Reconciliation of Operating Income to Net Cash
Provided by Operating Activities:

Operating income	\$ 6,649,154	\$ 8,834,941
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for bad debts	385,961	577,686
Depreciation expense	4,361,725	3,702,273
Change in assets and liabilities:		
Accounts receivable (net), billed and unbilled	1,004,945	(1,749,053)
Inventories	-	496
Vouchers payable	19,743	(1,546,880)
Accrued payroll	175,855	(87,377)
Other liabilities	(95,951)	96,574
Net cash provided by operating activities	<u>\$ 12,501,432</u>	<u>\$ 9,828,660</u>

Reconciliation of cash and cash equivalents to the statement of net assets:

Cash and cash equivalents	\$ 10,057	\$ 2,836,730
Restricted cash held in escrow	204,568	156,538
Total cash and cash equivalents per statement of net assets	<u>\$ 214,625</u>	<u>\$ 2,993,268</u>

Noncash investing, capital and financing activities:

Loss on sale or disposal of capital assets	\$ (82,785)	\$ (534)
Acquisition of fixed assets through change in contract retainage	<u>\$ 192,926</u>	<u>(248,815)</u>
Acquisition of fixed assets through vouchers payable	<u>\$ 1,554,022</u>	<u>\$ (1,175,176)</u>
Capitalized interest	<u>\$ 201,953</u>	<u>\$ 684,368</u>

See Notes to Financial Statements

Wastewater Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

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

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

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

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

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

Investment income includes both realized and unrealized gain and loss components.

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

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

Wastewater Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

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

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 government are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government are measured using the method that best reflects the diminished service utility of the capital asset. Any insurance recoveries received as a result of impairment events or changes in circumstances resulting in the impairment of a capital asset are netted against the impairment loss.

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

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

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

Wastewater Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

General allocations: The General Fund of the City provides administrative services to the Fund, which totaled \$1,538,487 and \$1,568,756 for the years ended June 30, 2009 and 2008, 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 \$104,227 and \$72,825 for the years ended June 30 2009 and 2008, 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.

Reclassifications: Certain reclassifications have been made to balances at June 30, 2008 to conform to the June 30, 2009 financial statement presentation.

Note 2. Cash and Investments

At June 30 2009 and 2008, the Fund's cash and investments consist of the following:

	2009	2008
Investment in LGIP	\$ 9,957	\$ 10,045
Other investments	16,935,099	28,041,294
Cash	204,668	2,983,223
	<u>\$ 17,149,724</u>	<u>\$ 31,034,562</u>
Cash and cash equivalents	\$ 10,057	\$ 2,836,730
Restricted cash held in escrow	204,568	156,538
Restricted investments	16,935,099	28,041,294
	<u>\$ 17,149,724</u>	<u>\$ 31,034,562</u>

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

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

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

Wastewater Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

The Fund has \$9,957 and \$10,045 deposited in the State Treasurer's LGIP at June 30 2009 and 2008, respectively, which has a Standard and Poor's rating of AAAm which is included in cash and cash equivalents.

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

Investment Type	2009		2008	
	Fair Value Less than 1 year		Fair Value Less than 1 year	
SNAP Money Market Mutual Funds	\$	16,665,312	\$	26,232,017
CCRF VAIM Prime Portfolio MMF				1,809,277
PFM Funds Prime Series		269,787		
	\$	16,935,099	\$	28,041,294

The Fund's rated investments, other than in LGIP, as of June 30 2009 and 2008 were rated by Standard and Poor's and the ratings presented below using the Standard and Poor's rating scale.

Investment Type	Fiscal Year 2009						
	AAA	AAAm	A-1+	AA+	AA	AA-	Total
Money Market Mutual Funds							
SNAP Money Market Mutual Funds	\$ -	\$ 16,665,312	\$ -	\$ -	\$ -	\$ -	\$ 16,665,312
PFM Funds Prime Series	-	269,787	-	-	-	-	269,787
Total Money Market Mutual Funds	\$ -	\$ 16,935,099	\$ -	\$ -	\$ -	\$ -	\$ 16,935,099

Investment Type	Fiscal Year 2008						
	AAA	AAAm	A-1+	AA+	AA	AA-	Total
Money Market Mutual Funds							
SNAP Money Market Mutual Funds	\$ 3,567,554	\$ -	\$ 21,379,094	\$ 682,032	\$ 52,464	\$ 550,873	\$ 26,232,017
CCRF VAIM Prime Portfolio MMF	-	1,809,277	-	-	-	-	1,809,277
Total Money Market Mutual Funds	\$ 3,567,554	\$ 1,809,277	\$ 21,379,094	\$ 682,032	\$ 52,464	\$ 550,873	\$ 28,041,294

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

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

Wastewater Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 3. Accounts Receivable

Accounts receivable at June 30 2009 and 2008 are comprised of the following:

	2009	2008
Wastewater maintenance fees	\$ 3,258,194	\$ 4,124,768
Less allowance for uncollectible accounts	(1,303,206)	(1,028,892)
	<u>\$ 1,954,988</u>	<u>\$ 3,095,876</u>

Note 4. Unbilled Accounts Receivable

At June 30 2009 and 2008, the Fund recognized \$987,990 and \$1,235,700 as unbilled accounts receivable related to unread meters. The associated revenue is included in net charges for services. These amounts were billed in July 2009 and July 2008, respectively.

Note 5. Capital Assets

Capital assets at June 30 2009 and 2008 are comprised of the following:

	Balance June 30, 2008	Additions	Retirements	Transfers	Balance June 30, 2009
Nondepreciable assets:					
Land	\$ 85,262	\$ -	\$ -	\$ -	\$ 85,262
Construction-in-progress	22,250,498	18,912,670	(946,590)	(22,464,385)	17,752,193
Total nondepreciable assets	<u>22,335,760</u>	<u>18,912,670</u>	<u>(946,590)</u>	<u>(22,464,385)</u>	<u>17,837,455</u>
Depreciable assets:					
Buildings	3,818,115	-	-	-	3,818,115
Equipment	178,692,172	1,302,195	(561,315)	22,464,385	201,897,437
Total	182,510,287	1,302,195	(561,315)	22,464,385	205,715,552
Less accumulated depreciation	(41,711,085)	(4,361,725)	447,588	-	(45,625,222)
Total depreciable assets, net	<u>140,799,202</u>	<u>(3,059,530)</u>	<u>(113,727)</u>	<u>22,464,385</u>	<u>160,090,330</u>
Total capital assets, net	<u>\$ 163,134,962</u>	<u>\$ 15,853,140</u>	<u>\$ (1,060,317)</u>	<u>\$ -</u>	<u>\$ 177,927,785</u>

	Balance June 30, 2007	Additions	Retirements	Transfers	Balance June 30, 2008
Nondepreciable assets:					
Land	\$ 85,262	\$ -	\$ -	\$ -	\$ 85,262
Construction-in-progress	25,438,978	20,875,017	(2,172,858)	(21,890,639)	22,250,498
Total nondepreciable assets	<u>25,524,240</u>	<u>20,875,017</u>	<u>(2,172,858)</u>	<u>(21,890,639)</u>	<u>22,335,760</u>
Depreciable assets:					
Buildings	3,818,115	-	-	-	3,818,115
Equipment	155,775,925	1,115,864	(90,256)	21,890,639	178,692,172
Total	159,594,040	1,115,864	(90,256)	21,890,639	182,510,287
Less accumulated depreciation	(38,098,534)	(3,702,273)	89,722	-	(41,711,085)
Total depreciable assets, net	<u>121,495,506</u>	<u>(2,586,409)</u>	<u>(534)</u>	<u>21,890,639</u>	<u>140,799,202</u>
Total capital assets, net	<u>\$ 147,019,746</u>	<u>\$ 18,288,608</u>	<u>\$ (2,173,392)</u>	<u>\$ -</u>	<u>\$ 163,134,962</u>

Wastewater Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

The Fund capitalized \$653,613 of interest expense and \$451,660 of interest income for the fiscal year ended June 30, 2009. For fiscal year ended June 30, 2008, the Fund capitalized \$684,368 of interest expense. The total interest cost for 2009 and 2008 were \$5,138,201 and \$3,043,616 respectively.

Note 6. Long-Term Obligations

General obligation bonds: A summary of general obligation bond transactions for the fiscal years ended June 30 2009 and 2008 follows:

	2009	2008
Beginning, July 1	\$ 103,106,883	\$ 84,483,354
Bonds retired/refunded	(7,670,557)	(6,736,471)
Bonds issued	2,246,301	25,360,000
Bonds outstanding at June 30	97,682,627	103,106,883
Unamortized discount/premium	1,502,562	(253,912)
General obligation bonds outstanding at June 30, adjusted for unamortized discount/premium	99,185,189	102,852,971
Less current portion	(6,585,615)	(6,150,117)
	<u>\$ 92,599,574</u>	<u>\$ 96,702,854</u>

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

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2009	2008
Series 1998 Capital Improvement	06/15/1998	\$ 44,330,000	4.25 - 5.00%	\$ 500,451	\$ 998,872
Series 1998 Refunding	06/15/1998	49,190,000	5.00%	391,107	1,884,076
Series 2002 Capital Improvement	02/01/2002	27,000,000	2.00 - 5.00%	738,710	4,653,955
Series 2002 Refunding	02/01/2002	47,200,000	2.00 - 5.00%	3,180,151	844,240
Series 2002B Refunding	11/01/2002	39,890,000	4.00 - 5.25%	1,540,763	1,804,821
Series 2003 VRA	04/08/2003	10,000,000	3.50%	7,934,013	8,125,599
Series 2003 Capital Improvement	11/15/2003	57,110,000	3.00 - 5.00%	824,856	879,846
Series 2003 Refunding	11/15/2003	12,265,000	3.00 - 5.00%	249,167	502,500
Series 2004 Refunding	03/01/2004	96,395,000	4.00 - 5.00%	5,498,778	6,464,288
Series 2004 VRA	09/17/2004	11,100,000	3.10%	10,020,346	10,462,196
Series 2005 Capital Improvement	03/16/2005	59,320,000	3.00 - 5.00%	1,650,000	1,720,000
Series 2005 Refunding	03/16/2005	35,035,000	3.00 - 5.00%	5,649,928	5,652,356
Series 2005 VRA	03/14/2006	11,500,000	3.00%	10,164,977	10,387,393
Series 2006 VRA	09/28/2006	14,250,000	-	13,537,500	13,438,839
Series 2006 Capital Improvement	11/15/2006	99,225,000	4.00 - 5.00%	9,254,500	9,579,500
Series 2006 Refunding	11/15/2006	15,830,000	4.00 - 5.00%	347,239	348,402
Series 2008 Capital Improvement	06/30/2008	26,230,118	4.70 - 5.00%	24,765,000	25,360,000
Series 2009 Refunding	05/21/2009	1,435,141	4.00 - 5.00%	1,435,141	-
Wastewater Utility General Obligation Bonds outstanding				<u>\$ 97,682,627</u>	<u>\$ 103,106,883</u>

On May 13, 2009, the City sold \$21,895,000 of general obligation bonds which were used to defease \$17,060,000 of the City's Series 1998 General Obligation Bonds and \$5,400,000 of the City's Series 2002 General obligation Bonds. \$1,435,141 of these bonds were liabilities of this Fund. The advance refunding will reduce the City's total debt service payments for bonds and result in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,505,606.

Wastewater Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

A summary of the requirements to amortize general obligation bonds outstanding at June 30, 2009 is as follows:

June 30, 2009	Principal	Interest
2010	\$ 6,585,615	\$ 3,484,577
2011	6,666,467	3,296,094
2012	6,582,923	3,032,814
2013	6,364,278	2,757,234
2014	5,369,723	2,526,572
2015-2019	25,774,532	9,627,134
2020-2024	24,547,750	5,315,485
2025-2029	15,791,339	1,262,741
	<u>\$ 97,682,627</u>	<u>\$ 31,302,651</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.

Revenue bonds: A summary of revenue bond transactions for the fiscal years ended June 30 2009 and 2008 is as follows:

	2009	2008
Beginning, July 1	\$ 7,359,833	\$ -
Bonds issued	6,207,605	7,359,833
Bonds outstanding at June 30	\$ 13,567,438	\$ 7,359,833
Less unamortized discount/premium	(50,000)	
Revenue bonds outstanding at June 30, adjusted for unamortized discount/premium	13,517,438	
Less current portion	(425,000)	-
	<u>\$ 13,092,438</u>	<u>\$ -</u>

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

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2009	2008
Series 2007 VRA	11/9/2007	\$ 13,567,438	-	\$ 13,567,438	\$ 7,359,833
Wastewater Utility Revenue Bonds outstanding				<u>\$ 13,567,438</u>	<u>\$ 7,359,833</u>

Wastewater Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

A summary of the requirements to amortize revenue bonds outstanding at June 30, 2009 is as follows:

Year Ending June 30, 2009	Principal
2010	\$ 425,000
2011	657,122
2012	657,122
2013	657,122
2014	657,122
2015-2019	3,285,609
2020-2024	3,285,609
2025-2029	3,285,609
2030	657,123
	<u>\$ 13,567,438</u>

Wastewater revenue bond, Series 2007 VRA loan, is 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, 2009 and 2008 were \$22,035,748 and \$5,535,748, 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. Reference should be made to the Comprehensive Annual Financial Report of the City of Norfolk for a further description of the plan. Retirement expense was \$528,888 and \$352,800 for the years ended June 30 2009 and 2008, respectively.

Note 8. Commitments

Commitments for completion of capital projects authorized at June 30, 2009 and 2008 were \$8,073,890 and \$14,019,692, respectively.

Note 9. Litigation

From time-to-time, the Fund and the City are defendants 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 of Norfolk's combination of purchased insurance policies and self-insurance plans.

Wastewater Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 11. Other Postemployment Benefits (OPEB)

The Fund adopted GASB Statement No. 45, Accounting and Financial Reporting by Employers for Other Postemployment Benefits (OPEB) in FY2008.

The City of Norfolk 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.

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, 2008 with results projected for the fiscal year ended June 30, 2009.

The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. Under this Statement, 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 annual required contribution 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 Fund used the pay as you go method to calculate the OPEB liability for June 30, 2009 as the City has not funded a trust for the OPEB liability. Using the most recent OPEB Plan Valuation Date of July 1, 2008, prepared by Cheiron, the City's actuary, the City has allocated to the Fund an ARC cost of \$167,397 and total OPEB liability for 2009 of \$928,411. In FY2008, the City, based on Cherion's OPEB Plan Valuation, allocated to the Fund an ARC cost of \$126,592 and total OPEB liability of \$912,795. 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 of Norfolk for further information.

Note 12. Accounting Pronouncements Issued But Not Yet Implemented

The GASB has issued several pronouncements prior to June 30, 2009 that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the Fund.

- GASB Statement 51, *Accounting and Financial Reporting for Intangible Assets*. GASB 51 requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. Additionally, GASB 51 establishes a specified-conditions approach to recognizing intangible assets that are internally generated and establishes criteria for when such expenditures should be capitalized. GASB 51 is effective for periods beginning after June 15, 2009 and generally requires its provisions to be applied retroactively.

Wastewater Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

- GASB Statement 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB 53 addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments to manage specific risks or to make investments. A key provision of this statement is that derivative instruments covered in its scope with limited exception, are reported at fair value. For many derivative instruments, historical prices are zero because their terms are developed so that the instruments may be entered into without a payment being received or made. The changes in fair value of derivative instruments used for investment purposes are reported within the investment revenue classification. Alternatively, changes in fair value of derivative instruments that are classified as hedging derivative instruments are reported in the statement of net assets as deferred inflows or outflows. Effectiveness of the instruments is to be analyzed. Objectives, terms and risks of hedging derivative instruments are required disclosures. Disclosures also will include a summary of derivative instrument activity that provides an indication of the fair value amounts reported on the financial statements. The improvements under GASB 53, which becomes effective for periods beginning after June 15, 2009, should allow users of a government's financial statements to more fully understand resources available to provide services.
- GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 more clearly defines the classifications of fund balance for more consistent application, and also clarifies the definition of existing governmental fund types. The new classifications of fund balance will comprise a hierarchy based on the extent to which the government is bound to observe constraints imposed upon the use of the financial resources of the funds. Fund balance will be reported in the following categories: nonspendable, restricted, committed, assigned and unassigned, depending on the relative strength of the constraints that control how the resources are spent. Disclosures are required about the processes through which constraints are imposed on amounts in the committed and assigned categories. Disclosures must also include the government's policies that determine the type of fund balance categories spent. There is also guidance in the statement regarding classification of stabilization amounts on the financial statements and related note disclosures. The changes to fund balance required by GASB 54 are effective for periods beginning after June 15, 2010, with reclassifications of fund balance applied retroactively for all periods presented.



KPMG LLP
Suite 2100
999 Waterside Drive
Norfolk, VA 23510

**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 Audit Standards***

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

We have audited the financial statements of the Wastewater Utility Fund of the City of Norfolk, Virginia (the Fund) as of and for the years ended June 30, 2009 and 2008, and have issued our report thereon dated January 19, 2010. As discussed in note 1 to the financial statements, the accompanying financial statements present only the Wastewater Utility Fund and do not purport to, and do not, present fairly the financial position of the City of Norfolk, Virginia, the changes in its financial position or its cash flows, where applicable, in conformity with U.S. generally accepted accounting principles. 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 is necessary to supplement, although not required to be a part of, the financial statements. 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.

Internal Control over Financial Reporting

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

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

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



Compliance and Other Matters

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

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

KPMG LLP

January 19, 2010