



Wastewater Utility Fund of the City of Norfolk, Virginia

Financial and Compliance Report
Year Ended June 30, 2010

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KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditor's Report

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

We have audited the accompanying statement of net assets of the Wastewater Utility Fund of the City of Norfolk, Virginia (the Fund), as of and for the year ended June 30, 2010 and 2009, 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 opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards 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 audit provides 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 policies.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund of the City of Norfolk, Virginia as of June 30, 2010 and 2009, and 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 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Fund, taken as a whole. The supplemental schedule is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects in relation to the financial statements taken as a whole.



In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2011 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

KPMG LLP

January 14, 2011

Wastewater Utility Fund of the City of Norfolk, Virginia

Statements of Net Assets

June 30, 2010 and 2009

	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 12,119,348	\$ 10,057
Receivables:		
Accounts (net)	2,111,897	1,954,988
Unbilled accounts	1,056,632	987,990
Other receivables	65,450	446
Inventories	52,362	46,488
Internal balances	1,978,166	-
Restricted cash held in escrow	-	204,568
Restricted short term investments	8,282,031	16,935,099
Total current assets	<u>25,665,886</u>	<u>20,139,636</u>
Capital Assets:		
Non-depreciable assets	11,279,560	17,837,455
Depreciable assets	222,366,908	205,715,552
Accumulated depreciation and amortization	(49,672,910)	(45,625,222)
Total noncurrent assets	<u>183,973,558</u>	<u>177,927,785</u>
Total assets	<u>209,639,444</u>	<u>198,067,421</u>
LIABILITIES		
Current liabilities:		
Vouchers payable	199,832	270,531
Vouchers payable for CIP Projects	1,548,226	2,729,198
Contract retainage	364,438	680,196
Due to Capital Project fund and other funds	-	932,888
Accrued interest	1,277,145	1,123,189
Accrued payroll	89,849	96,204
Payable to employee retirement system	613,351	528,888
Current portion of bonds payable	7,502,669	7,010,615
Compensated absences	216,523	191,775
Other liabilities	1,500	204,304
Total current liabilities	<u>11,813,533</u>	<u>13,767,788</u>
Noncurrent liabilities:		
General obligation bonds payable	98,382,026	92,599,574
Revenue bonds payable	17,059,873	13,092,438
Liability for other post employment benefits (OPEB)	296,835	167,397
Compensated absences	140,177	149,161
Total noncurrent liabilities	<u>115,878,911</u>	<u>106,008,570</u>
Total liabilities	<u>127,692,444</u>	<u>119,776,358</u>
NET ASSETS		
Invested in capital assets, net of related debt	61,028,990	65,225,158
Restricted	8,282,031	16,935,099
Unrestricted	12,635,979	(3,869,194)
Total net assets	<u>\$ 81,947,000</u>	<u>\$ 78,291,063</u>

See Notes to Financial Statements

Wastewater Utility Fund of the City of Norfolk, Virginia

Statements of Revenues, Expenses and Changes in Net Assets
 Years Ended June 30, 2010 and 2009

	2010	2009
Operating revenues:		
Charges for services	\$ 23,814,509	\$ 23,125,447
Miscellaneous	270,616	183,595
Total operating revenues	24,085,125	23,309,042
Operating expenses:		
Personnel services	4,626,925	4,687,564
Plant operations	2,482,952	2,491,899
Chemicals	81,194	120,473
Provision for bad debts	113,541	385,961
Depreciation and amortization	4,633,079	4,361,725
Retirement contribution	613,351	661,386
OPEB expense	129,438	40,805
Administrative expenses	1,450,338	1,459,623
Other	1,785,126	2,450,452
Total operating expenses	15,915,944	16,659,888
Operating income	8,169,181	6,649,154
Nonoperating revenue (expenses):		
Interest income, net of interest capitalized	37,305	12,795
Intergovernmental revenues	65,450	-
Interest expense and fiscal charges, net of interest capitalized	(3,066,524)	(4,484,588)
Loss on sale or disposal of fixed assets	(49,475)	(82,785)
Total nonoperating expenses	(3,013,244)	(4,554,578)
Income before contributions and transfers	5,155,937	2,094,576
Transfers out	(1,500,000)	(1,500,000)
Change in net assets	3,655,937	594,576
Total net assets - beginning	78,291,063	77,696,487
Total net assets - ending	\$ 81,947,000	\$ 78,291,063

See Notes to Financial Statements

Wastewater Utility Fund of the City of Norfolk, Virginia

Statements of Cash Flows

Years Ended June 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 23,681,029	\$ 24,313,987
Payments to suppliers	(2,640,719)	(2,592,629)
Payments to employees	(5,146,404)	(5,253,720)
Other payments/receipts	(3,438,268)	(3,966,206)
Net cash provided by operating activities	<u>12,455,638</u>	<u>12,501,432</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Internal activity, payments to other funds	(2,911,054)	(5,764,205)
Transfers out	(1,500,000)	(1,500,000)
Intergovernmental revenues	65,450	
Net cash used in noncapital financing activities	<u>(4,345,604)</u>	<u>(7,264,205)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of debt	17,388,434	8,453,906
Purchases of capital assets	(12,225,057)	(17,490,385)
Principal paid on capital debt	(7,010,615)	(6,150,117)
Refunding of debt principal	-	(1,520,439)
Interest paid on capital debt	(3,048,446)	(2,427,825)
Net cash provided (used) by capital and related financing activities	<u>(4,895,684)</u>	<u>(19,134,860)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(17,383,963)	(8,526,895)
Proceeds from sale or maturity of investments	26,037,031	19,633,090
Interest and dividends	37,305	12,795
Net cash provided (used) in investing activities	<u>8,690,373</u>	<u>11,118,990</u>
Net decrease in cash and cash equivalents	11,904,723	(2,778,643)
Cash and cash equivalents - beginning of year	<u>214,625</u>	<u>2,993,268</u>
Cash and cash equivalents - end of year	<u>\$ 12,119,348</u>	<u>\$ 214,625</u>

(Continued)

Wastewater Utility Fund of the City of Norfolk, Virginia

Statements of Cash Flows (Continued)

Years Ended June 30, 2010 and 2009

Reconciliation of Operating Income to Net Cash

Provided by Operating Activities:

Operating income	\$ 8,169,181	\$ 6,649,154
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for bad debts	113,541	385,961
Depreciation and amortization expense	4,633,079	4,361,725
Change in assets and liabilities:		
Accounts receivable (net), billed and unbilled	(404,096)	1,004,945
Inventories	(5,874)	-
Vouchers payable	(70,699)	19,743
Accrued payroll	93,872	175,855
Other liabilities	(73,366)	(95,951)
Net cash provided by operating activities	<u>\$ 12,455,638</u>	<u>\$ 12,501,432</u>

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

Cash and cash equivalents	12,119,348	\$ 10,057
Restricted cash held in escrow	-	204,568
Total cash and cash equivalents per statement of net assets	<u>\$ 12,119,348</u>	<u>\$ 214,625</u>

Noncash investing, capital and financing activities:

Loss on sale or disposal of capital assets	<u>\$ (49,475)</u>	<u>\$ (82,785)</u>
Acquisition of fixed assets through change in contract retainage	<u>\$ (315,758)</u>	<u>192,926</u>
Acquisition of fixed assets through change in vouchers payable	<u>\$ (1,180,972)</u>	<u>\$ 1,554,022</u>
Capitalized interest	<u>\$ 389,042</u>	<u>\$ 201,953</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:

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

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

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

The Fund evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the 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

Wastewater Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

grants, are reported as nonoperating. When both restricted and unrestricted resources are available for use, the policy is to use restricted resources first, and then unrestricted resources as they are needed.

General allocations: The General Fund of the City provides administrative services to the Fund, which totaled \$1,529,202 and \$1,538,487 for the years ended June 30, 2010 and 2009, respectively. Charges for these services are treated as expenses by the Fund. In addition the Fund recorded, as other expenses, payments to the General Fund in lieu of taxes of \$114,521 and \$104,227 for the years ended June 30, 2010 and 2009, respectively.

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

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

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

Note 2. Cash and Investments

At June 30 2010 and 2009, the Fund's cash and investments consist of the following:

	2010	2009
Investment in LGIP	\$ 5,000,776	\$ 9,957
Other investments	8,282,031	16,935,099
Cash	7,118,572	204,668
	<u>\$ 20,401,379</u>	<u>\$ 17,149,724</u>
Cash and cash equivalents	\$ 12,119,348	\$ 10,057
Restricted cash held in escrow	-	204,568
Restricted investments	8,282,031	16,935,099
	<u>\$ 20,401,379</u>	<u>\$ 17,149,724</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.

Wastewater Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

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

The Fund has \$5,000,776 and \$9,957 deposited in the State Treasurer's LGIP at June 30, 2010 and 2009, 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	2010	2009
	Fair Value Less than 1 year	Fair Value Less than 1 year
SNAP Money Market Mutual Funds	\$ 8,011,295	\$ 16,665,312
PFM Funds Prime Series	270,736	269,787
	<u>\$ 8,282,031</u>	<u>\$ 16,935,099</u>

The Fund's rated investments, other than in LGIP, as of June 30, 2010 and 2009 were rated by Standard and Poor's and the ratings presented below using the Standard and Poor's rating scale.

Investment Type	Fiscal Year 2010						Total
	AAA	AAAM	A-1+	AA+	AA	AA-	
Money Market Mutual Funds							
SNAP Money Market Mutual Funds	\$ -	\$ 8,011,295	\$ -	\$ -	\$ -	\$ -	\$ 8,011,295
PFM Funds Prime Series	-	270,736	-	-	-	-	270,736
Total Money Market Mutual Funds	<u>\$ -</u>	<u>\$ 8,282,031</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,282,031</u>

Investment Type	Fiscal Year 2009						Total
	AAA	AAAM	A-1+	AA+	AA	AA-	
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	<u>\$ -</u>	<u>\$ 16,935,099</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,935,099</u>

The Fund has combined amounts restricted for capital projects and amounts for which the nature of the transaction generated a related liability with amounts available for general operating use in the 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.

Wastewater Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

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.

Note 3. Accounts Receivable

Accounts receivable at June 30, 2010 and 2009 are comprised of the following:

	2010	2009
Wastewater maintenance fees	\$ 3,141,790	\$ 3,258,194
Less allowance for uncollectible accounts	(1,029,893)	(1,303,206)
	<u>\$ 2,111,897</u>	<u>\$ 1,954,988</u>

Note 4. Unbilled Accounts Receivable

At June 30, 2010 and 2009, the Fund recognized \$1,056,632 and \$987,990 as unbilled accounts receivable related to unread meters. The associated revenue is included in net charges for services. These amounts were billed in July 2010 and July 2009, respectively.

Note 5. Capital Assets

Capital assets at June 30, 2010 and 2009 are comprised of the following:

	Balance June 30, 2009	Additions	Retirements	Transfers	Balance June 30, 2010
Nondepreciable assets:					
Land	\$ 85,262	\$ -	\$ -	\$ -	\$ 85,262
Intangible assets	-	-	-	-	-
Construction-in-progress	17,752,193	10,784,659	(388,806)	(16,953,748)	11,194,298
Total nondepreciable assets	<u>17,837,455</u>	<u>10,784,659</u>	<u>(388,806)</u>	<u>(16,953,748)</u>	<u>11,279,560</u>
Depreciable & amortized assets:					
Buildings	3,818,115	-	-	-	3,818,115
Equipment	201,897,437	389,042	(691,434)	16,861,270	218,456,315
Intangible assets	-	-	-	92,478	92,478
Total	205,715,552	389,042	(691,434)	16,953,748	222,366,908
Less accumulated depreciation and amortization	(45,625,222)	(4,633,079)	585,391	-	(49,672,910)
Total depreciable assets, net	<u>160,090,330</u>	<u>(4,244,037)</u>	<u>(106,043)</u>	<u>16,953,748</u>	<u>172,693,998</u>
Total capital assets, net	<u>\$ 177,927,785</u>	<u>\$ 6,540,622</u>	<u>\$ (494,849)</u>	<u>\$ -</u>	<u>\$ 183,973,558</u>

Wastewater Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

	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>

During fiscal year 2010, the Fund implemented Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses how to identify, account for, and report various intangible assets. The Fund applied the criteria of GASB Statement No. 51 and recorded depreciable intangible assets, net of accumulated amortization of \$84,020 and \$0 as of June 30, 2010 and 2009, respectively.

The Fund capitalized \$399,742 of interest expense and \$10,700 of interest income for the fiscal year ended June 30, 2010. For fiscal year ended June 30, 2009, the Fund capitalized \$653,613 of interest expense and \$451,660 of interest income. The total interest cost for 2010 and 2009 were \$3,466,266 and \$5,138,201, respectively.

Note 6. Long-Term Obligations

General obligation bonds: A summary of general obligation bond transactions for the fiscal years ended June 30, 2010 and 2009 follows:

	2010	2009
Beginning, July 1	\$ 97,682,627	\$ 103,106,883
Bonds retired/refunded	(6,585,615)	(7,670,557)
Bonds issued	12,371,969	2,246,301
Bonds outstanding at June 30	<u>103,468,981</u>	<u>97,682,627</u>
Unamortized discount/premium	<u>1,565,714</u>	<u>1,502,562</u>
General obligation bonds outstanding at June 30, adjusted for unamortized discount/premium	105,034,695	99,185,189
Less current portion	(6,652,669)	(6,585,615)
	<u>\$ 98,382,026</u>	<u>\$ 92,599,574</u>

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

Wastewater Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2010	2009
Series 1998 Capital Improvement	06/15/1998	\$ 44,330,000	4.25 - 5.00%	\$ -	\$ 500,451
Series 1998 Refunding	06/15/1998	49,190,000	5.00%	-	391,107
Series 2002 Capital Improvement	02/01/2002	27,000,000	2.00 - 5.00%	211,060	738,710
Series 2002 Refunding	02/01/2002	47,200,000	2.00 - 5.00%	2,556,097	3,180,151
Series 2002B Refunding	11/01/2002	39,890,000	4.00 - 5.25%	1,278,014	1,540,763
Series 2003 VRA	04/08/2003	10,000,000	3.50%	7,540,723	7,934,013
Series 2003 Capital Improvement	11/15/2003	57,110,000	3.00 - 5.00%	769,865	824,856
Series 2003 Refunding	11/15/2003	12,265,000	3.00 - 5.00%	-	249,167
Series 2004 Refunding	03/01/2004	96,395,000	4.00 - 5.00%	4,763,358	5,498,778
Series 2004 VRA	09/17/2004	11,100,000	3.10%	9,564,693	10,020,346
Series 2005 Capital Improvement	03/16/2005	59,320,000	3.00 - 5.00%	1,580,000	1,650,000
Series 2005 Refunding	03/16/2005	35,035,000	3.00 - 5.00%	5,647,500	5,649,928
Series 2005 VRA	03/14/2006	11,500,000	3.00%	10,291,377	10,164,977
Series 2006 VRA	09/28/2006	14,250,000	-	12,825,000	13,537,500
Series 2006 Capital Improvement	11/15/2006	99,225,000	4.00 - 5.00%	8,914,500	9,254,500
Series 2006 Refunding	11/15/2006	15,830,000	4.00 - 5.00%	345,971	347,239
Series 2008 Capital Improvement	06/30/2008	26,230,118	4.70 - 5.00%	23,955,000	24,765,000
Series 2009 Refunding	05/21/2009	1,435,141	4.00 - 5.00%	1,435,141	1,435,141
Series 2010 Capital Improvement	1/21/2010	2,982,587	1.75 - 5.00%	2,982,587	-
Series 2010 Capital Improvement	1/21/2010	8,808,095	4.04 - 5.96%	8,808,095	-
Wastewater Utility General Obligation Bonds outstanding				\$ 103,468,981	\$ 97,682,627

A summary of the requirements to amortize general obligation bonds outstanding at June 30, 2010 is as follows:

Year Ending June 30,	Principal	Interest
2011	\$ 6,652,669	3,927,361
2012	7,165,509	3,604,063
2013	6,946,909	3,299,073
2014	5,951,438	3,049,875
2015	6,069,524	2,824,837
2016-2020	27,786,450	10,836,179
2021-2025	27,708,347	5,936,083
2026-2030	14,600,992	1,401,960
2031-2035	587,143	35,005
	\$ 103,468,981	34,914,436

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

Wastewater Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Revenue bonds: A summary of revenue bond transactions for the fiscal years ended June 30, 2010 and 2009 is as follows:

	2010	2009
Beginning, July 1	\$ 13,567,438	\$ 7,359,833
Bonds retired/refunded	\$ (425,000)	\$ -
Bonds issued	4,816,729	6,207,605
Bonds outstanding at June 30	\$ 17,959,167	\$ 13,567,438
Less unamortized discount/premium	(49,294)	(50,000)
Revenue bonds outstanding at June 30, adjusted for unamortized discount/premium	17,909,873	13,517,438
Less current portion	(850,000)	(425,000)
	<u>\$ 17,059,873</u>	<u>\$ 13,092,438</u>

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

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2010	2009
Series 2007 VRA	11/9/2007	\$ 17,000,000	-	\$ 16,575,000	\$ 13,567,438
Series 2009 VRA	11/17/2009	\$ 1,384,167	-	\$ 1,384,167	\$ -
Wastewater Utility Revenue Bonds outstanding				<u>\$ 17,959,167</u>	<u>\$ 13,567,438</u>

A summary of the requirements to amortize revenue bonds outstanding at June 30, 2010 is as follows:

Year Ending June 30,	Principal
2011	\$ 850,000
2012	919,208
2013	919,208
2014	919,208
2015	919,208
2016-2020	4,596,040
2021-2025	4,596,040
2026-2030	4,171,040
2031	69,215
	<u>\$ 17,959,167</u>

Wastewater revenue bonds, Series 2007 VRA loan and Series 2009 VRA loan, are payable solely from the revenue of the Fund. The most restrictive covenant of the wastewater revenue bond requires that the Fund's net revenue available for debt service will equal at least 115% of the amount required during the fiscal year to pay the principal of the bond, the additional payments and all other indebtedness payable from revenues.

Bonds authorized and unissued as of June 30, 2010 and 2009 were \$19,035,748 and \$22,035,748, respectively.

Wastewater Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

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 \$613,351 and \$661,386 for the years ended June 30, 2010 and 2009, respectively.

Note 8. Commitments

Commitments for completion of capital projects authorized at June 30, 2010 and 2009 were \$11,086,471 and \$8,073,890, 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.

Note 11. Other Postemployment Benefits (OPEB)

The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with 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 ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The ARC as computed for the City is allocated to the Fund based on payroll.

The Fund and the City use the pay as you go method to calculate the OPEB liability for June 30, 2010 as the City has not funded a trust for the OPEB liability. Using the most recent OPEB plan valuation date of July 1, 2009, 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:

Wastewater Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

	2010	2009
Net beginning OPEB obligation	\$ 167,397	\$ 126,592
Annual required contributions	202,214	141,352
Interest on net OPEB obligation	7,561	3,708
Adjustment to ARC	(5,979)	(2,830)
Annual OPEB cost	203,796	142,230
Less: contributions made	74,358	101,425
Increase in net OPEB obligation	129,438	40,805
Net ending OPEB obligation	\$ 296,835	\$ 167,397

The total unfunded actuarial accrued liability (UAAL) for 2010 and 2009 is \$1,259,095 and \$928,411, respectively, and is allocated to the Fund on the same basis as the ARC. The allocation is based on covered payroll and does not purport to represent the OPEB liability of the Fund on a stand-alone basis. Reference should be made to the Comprehensive Annual Financial Report of the City of Norfolk for further information.

Note 12. Accounting Pronouncements Issued But Not Yet Implemented

The GASB has issued a pronouncement prior to June 30, 2010 that has an effective date that may impact future financial presentations.

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

- 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.

Wastewater Utility Fund of the City of Norfolk, Virginia

Supplementary Schedule

Debt Capacity Information - Revenue Bonds Debt Service Coverage

Fiscal Year	Revenue Available for Debt Service (1)	Operating Expenses Less Depreciation & Amortization (2)	Income Available for Debt Service	Debt Service			Coverage
				Principal	Interest	Total	
2010	\$ 24,122,430	\$ 11,282,865	\$ 12,839,565	\$ 425,000	\$ -	\$ 425,000	30.21

1. Includes operating revenue plus interest income, net of interest capitalized.
2. Includes operating expenses less depreciation and amortization.



KPMG LLP
Suite 1900
440 Monticello Avenue
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 Auditing Standards***

The Honorable Members of the City Council
Wastewater Utility Fund of the City 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 year ended June 30, 2010 and 2009, and have issued our report thereon dated January 14, 2011. As discussed in note 1 to the financial statements, the accompanying financial statements present on 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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



Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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, 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 14, 2011