



# COMPREHENSIVE ANNUAL FINANCIAL REPORT 2014

CITY OF NEWPORT NEWS, VIRGINIA

FISCAL YEAR ENDED  
JUNE 30, 2014



THE UNFINISHED MARCH, SCULPTURE BY ED HAMILTON

# CITY OF NEWPORT NEWS, VIRGINIA

## Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2014

Prepared by the  
Department of Finance

2400 Washington Avenue  
Newport News, VA 23607

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# City of Newport News

Virginia 23607

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November 25, 2014

The Honorable City Council  
City of Newport News  
Newport News, Virginia 23607

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Newport News, Virginia (the City) for the fiscal year ended June 30, 2014 (FY 2014).

Cherry Bekaert LLP, Certified Public Accountants, conducted the audit of the City's financial statements for the year ended June 30, 2014, and have issued an unmodified ("clean") opinion on those statements. The independent auditor's report is located at the front of the Financial Section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. This letter of transmittal is intended to provide a profile of the City and summary information about its economic condition and is intended to complement the MD&A, with which it should be read in conjunction.

Responsibility for the accuracy of the data and the completeness of all information rests with City management. Management believes that the City's accounting system provides adequate internal controls. These controls are designed to provide reasonable, but not absolute, assurance regarding the safekeeping of assets against loss from unauthorized use or disposition, and the reliability of the financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the evaluation of those costs and benefits requires estimates and judgments by management.

To the best of our knowledge and belief, the attached data is accurate in all material respects and is reported in a manner that presents fairly the financial position and the results of operations of the various funds and component units of the City. Extensive disclosures have been included to help the reader gain full understanding of the City's financial affairs.

## *Profile of the City and its Government*

The City of Newport News, incorporated in 1896, is located on the eastern coast of Virginia. It occupies 69 square miles with a population of 182,020, based on the 2014 census estimates.

## CITY OF NEWPORT NEWS, VIRGINIA

Newport News is the fourth largest city by acreage and the fifth largest city by population in the Commonwealth of Virginia.

The City has a council-manager form of government. Policy-making and legislative authority is vested in a Council consisting of the mayor and six other members, all elected on a non-partisan basis. The Mayor and Council members serve four-year terms, with three members elected every two years. The Mayor is elected at large and the six members of Council are elected by voters of the districts in which they reside. The Council appoints the City Manager who carries out its policies, directs daily operations and appoints the heads of various departments. The Council also appoints the City Attorney, who is the legal advisor to the Council, the City administration, boards, commissions and agencies of the City.

The City provides a full range of services, including police and fire protection, juvenile detention, adult correction, sanitation and human services, the construction and maintenance of highways, streets and infrastructure, recreational activities and cultural events. In addition to general government activities, the City provides street lighting, water and wastewater services to its citizens. The City's Public Utilities Department (Waterworks) also provides water to the cities of Hampton, Poquoson and parts of York and James City Counties.

This report covers financial transactions of all services provided by the City. The City is also financially responsible for a legally separate school district, which is reported separately within the financial statements. Also included, as component units, in addition to the Newport News Public Schools (Schools, or School Board), are the Peninsula Airport Commission (Airport, or PAC), and the Economic/Industrial Development Authorities (E/IDA), because of City Council financial accountability and their significant financial ties with the City.

The independent agencies that are NOT included in the City financial statements are the Newport News Redevelopment and Housing Authority (NNRHA), the Office of Human Affairs (OHA) and the Hampton-Newport News Community Services Board (HNNCSB).

The City's annual budget process, the foundation for communicating major financial operating objectives and for allocating resources to achieve them, is a complex undertaking involving the entire government. The City is required by State code to adopt a final budget by the 15th day of the last month of the fiscal year (June 15). Once the budget is approved, the focus is upon control of expenditures and monitoring revenues. Ongoing monitoring of revenues and expenditures throughout the year is a responsibility shared by department directors and the Department of Budget and Evaluation (Budget Department).

The Budget Department reviews all transfer requests from departments to ensure that sufficient appropriations are available. The City Manager has the authority to transfer budgeted amounts among departments within any fund; however, any revisions altering the total appropriations of any fund must be approved by City Council. Budget to actual comparisons are provided in this report for each governmental and enterprise fund for which an annual budget has been adopted.

## CITY OF NEWPORT NEWS, VIRGINIA

### *Local Economy*

Newport News is a vibrant city at the mid-point of the Atlantic Coast and at the center of the Virginia Beach-Norfolk-Newport News Metropolitan Statistical Area, the 37th largest market in the United States and the largest metro between Washington and Atlanta, with a population estimate of 1.7 million.

Newport News is located on the Virginia Peninsula—surrounded by the James River to the south, the York River to the north, and the Chesapeake Bay to the east. The diversity of available resources and quality of life for those who live here are enhanced by its close proximity to 15 other cities and counties. In total, these entities blend synergistically into Virginia's Hampton Roads region, and Newport News is a vital contributor to the wonderful lifestyle, energy, and economic strength of this vibrant area.

Newport News has an economic foundation which was historically based largely on livelihoods benefitting from the constant presence of water—shipbuilding, fishing, and both naval and commercial transport networks. Over the past 40 years, the City has evolved into a community now defined by science and technology industries balanced between commercial and military applications, research facilities, higher education, manufacturing, distribution, and healthcare.

### *Newport News Public School System*

One of the most important services provided by a city to its taxpayers is the education of the children of the community. The Newport News School System (Schools) provides a full range of public education services to approximately 29,268 students in 4 early childhood centers, 24 elementary schools, 7 middle schools, 5 high schools, 1 combination middle/high school, and 9 program sites.

Schools receive funding from taxes collected and allocated by the Commonwealth of Virginia and local support from the City, in addition to federal aid. Capital funding for public school facilities is provided primarily by the sale of general obligation bonds of the City.

More information regarding the important achievements of the Newport News Public Schools is available in the separately published Schools CAFR.

### *Economic Condition and Outlook*

A city's economic condition is only as good as the condition of its businesses and its taxpayers, and Newport News is blessed with a diversity of contributors to the local economy—corporate, military, education and individual, many of which were able to weather the recent economic turbulence without significant downsizing.

Newport News routinely enjoys unemployment rates lower than the national average. During FY 2014, the City's rate decreased from 6.9% to 6.4% at June 30, 2014, compared to the national average of 6.5%.

## CITY OF NEWPORT NEWS, VIRGINIA

One of the primary goals of the City is to promote an environment which encourages economic growth and job development. The City's development activities are executed primarily through the Economic and Industrial Development Authorities (E/IDA). The core mission of the E/IDA is to grow and diversify the tax and employment base of the City. This mission is accomplished by promoting Newport News as an ideal location for business start-up, relocation, expansion, and capital investment.

One of the five Strategic Priorities of the City is economic development and redevelopment. Recent positive economic news included some of the City's largest companies.

### *Tech Center at Oyster Point*

In early 2014, site clearing began on the commercial components of a major collaborative project involving W. M. Jordan Company, S.J. Collins Enterprises, Virginia Tech University, the City of Newport News and the E/IDA. The \$250 million mixed-use development concept begins immediately with retail, commercial and restaurant construction, followed by 250 luxury apartments, and with a high end grocery planned for opening in mid-2015.

Virginia Tech University and W.M. Jordan Company have teamed to introduce a corporate research center concept on adjacent properties with growth potential of up to 1.2 million square feet of office and research space, and modeled on the highly successful Virginia Tech Corporate Research Center in Blacksburg.

Adjacency to one of ten U.S. national science laboratories, as well as nearby NASA and the National Institute of Aerospace, offers tremendous potential for leveraging the presence of high-tech scientific and technical workforces and the international user community they serve. The Thomas Jefferson National Accelerator Facility (Jefferson Lab, or Lab) continues to be a strong advocate and cooperative partner in master planning and has major facilities upgrade plans that will mesh with the corporate research development in ways that benefit Jefferson Lab and economic development in Newport News and the region for decades.

### *Liebherr Mining Equipment Company*

Liebherr Mining Equipment Company manufactures very large and expensive machines used for transporting ore, to markets around the world. In February 2013, Liebherr announced its plans to invest \$45.4 million to expand its operation in the City of Newport News and the City of Hampton. The project will create 174 new jobs over a 48-month period. Governor McDonnell approved a \$500,000 grant from the Governor's Opportunity Fund to assist Newport News with the project, and also approved an \$800,000 performance-based grant from the Virginia Investment Partnership program.

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### *Canon Virginia, Inc.*

In June 2013, Canon announced that it would invest an additional \$27 million in Newport News to expand its toner manufacturing operation. The company plans to upgrade 30,000 square feet of existing space at its campus. This announcement follows a major expansion in 2008, which included the construction of a 700,000 square-foot plant, an investment of \$623.5 million in real estate and machinery and 1,035 new jobs.

### *University of Virginia/Virginia Tech Joint Education Center*

The University of Virginia and Virginia Tech entered into a cooperative arrangement to establish an academic center located in the Oyster Point section of Newport News. The goals of the Center are to provide educational services, including instruction for professional certificates, graduate and undergraduate degree programs in education and science and technology disciplines, and customized contract training courses for business, military, defense contractors, professional development, meeting, planning and conference management. The Center will be a significant economic development asset for the City, creating jobs and benefitting citizens and businesses by providing educational and workforce development opportunities which previously did not exist on the Virginia Peninsula.

In August 2013, the City and the EDA celebrated the opening of the Center with an open house and reception featuring presidents and academic deans from the University of Virginia and Virginia Tech, as well as the Secretary of Education for the Commonwealth of Virginia. Since its opening, the Center has offered numerous training programs and forged several successful corporate partnerships.

### *Huntington Ingalls Industries and the Apprentice School Project*

Huntington Ingalls Industries is the State's largest private employer with nearly 20,000 workers employed in Newport News at its Newport News Shipbuilding division (Shipyard) and its affiliated companies. In addition to the capital investment being made in its submarine construction facilities, the Shipyard continues to make major investments in the upgrade and maintenance of its existing facilities. The Shipyard also continues to invest in its human capital, and in 2009 the Virginia General Assembly passed legislation making \$25 million available, beginning in FY 2013, for the construction of a new Shipyard Apprentice School in Downtown Newport News. Groundbreaking occurred on May 3, 2012, and the opening of the facility was celebrated on December 6, 2013.

The Apprentice School Project is one of the most exciting redevelopment projects in the history of the City. Funding for a new Apprentice School leveraged an additional \$43 million in private investment in Downtown Newport News. The project is the result of collaborative effort among the Commonwealth, the City, the E/IDA, Huntington Ingalls, and Armada Hoffler. The project consists of the 86,000 square-foot Apprentice School, 197 market-rate apprentice and workforce housing units, a 382-car parking garage and over 30,000 square feet of ground floor retail space.

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### *Other important local employers*

On January 28, 2013, Riverside Health System opened its 250,000-square foot, three-story surgical Pavilion. The Pavilion is located on the 78-acre campus in Newport News and houses 72 patient beds on four wings centered on a core of 12 operating rooms, an 18-bed observation unit and a ground-level pharmacy. The \$107 million structure took two years to complete and is designed to allow for future expansion. The Pavilion increased the acute care space on the campus by more than a third and created between 50 and 70 new jobs.

The company also opened a PACE center (Program of All-inclusive Care for the Elderly) in the Denbigh area of Newport News in late 2012. PACE provides elder care and recreation services on-site while allowing patients the comfort of continuing to live at home.

Development continued on the upgrade to the Continuous Electron Beam Accelerator at the Jefferson Lab. The Lab recently completed construction on a 100,000 square-foot laboratory and office, as well as a 96,000 square-foot warehouse renovation, representing an investment of \$73 million. Beyond the short-term economic impacts generated from construction, the Jefferson Lab expansion will add 50 new employees and bring 200 to 400 additional visitors to the City on an annual basis. The total project cost (from design to commissioning) is \$338 million, and will double the maximum energy of the Lab's electron beam to 12 billion electron-Volts. The project is expected to be completed by 2017.

New Horizons Regional Education Center Association (New Horizons) is a non-profit, unincorporated association governed by the school boards of the cities of Newport News, Hampton, Poquoson, Williamsburg/James City County, and the counties of York and Gloucester. New Horizons provides a variety of regional, federally-mandated education programs including adult education and programs serving children with disabilities. The Newport News campus includes over 76,148-square feet of buildings situated on twenty acres of land, has operated for over twenty years and is the largest of the nine regional education centers in Virginia in both size and scope of services, serving over 1,500 public school students and 1,200 adults annually.

In 2013, New Horizons Trustees completed plans and secured financing to construct a modern regional special education facility to meet their needs for years to come. The plans include a new 52,000 square foot, two-story building housing administrative offices, conference rooms, gymnasium, cafeteria, 29 classrooms, vocational labs and therapy and sensory rooms. The facility is expected to open in the fall of 2015.

### *Tourism Zones and Entertainment District*

On February 14, 2012, City Council established four tourism zones. Under the Local Tourism Zone Incentive Program, eligible businesses, existing or new, large or small, can qualify for a reimbursement of a portion of new taxes generated by the project. Under the local program, the owners of Second Street Bistro made a capital investment of \$1,000,000 and hired at least 20

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employees. Under a combination of the local program and the Commonwealth's program, the developers of City Center have made a capital investment of over \$22,000,000 and have committed to hire over 525 employees associated with the City Center entertainment district.

The City is now more than 92% developed, with most of its built environment oriented around automobile-dependent forms of development. New urbanism and sustainable development, which seek to recreate more pedestrian-friendly neighborhoods, have been successfully implemented in Newport News with such projects as City Center at Oyster Point, Port Warwick, Patrick Henry Place, Huntington Pointe and Hilton Commons (now in its planning phase). Recreating the City in this mode will be increasingly important to enhancing the City's quality of life and making it globally competitive to attract and retain a skilled, educated and creative labor force to support continued economic development.

### *Long-term financial planning and debt administration*

As required by the City Code, the City Manager submits a multi-year Capital Improvements Plan (CIP) to City Council, no later than November 1 of each year. The FY 2015 to FY 2019 Capital Improvements Plan was approved by City Council on January 14, 2014. The CIP reflects the vision and priorities of the City Council for the construction and maintenance of the buildings and infrastructure improvements owned by the City. Although intended to be a commitment to a multi-year capital needs program, the CIP is fundamentally a planning document and is subject to annual modification and amendment as changing priorities, availability of funding and other factors create the need for revision. Most projects in the CIP are funded by 20-year General Obligation Bonds issued by the City with level annual principal payments. The annual principal and interest payments (debt service) are budgeted in the City's annual operating budget. The General, Schools, Wastewater, Stormwater, and Solid Waste, Funds each pay a proportionate share of principal and interest payments. The Public Utilities (Waterworks) Fund pays all of the debt service related to its capital projects. The FY 2015 Budget provides that the General Fund will pay 80%, or \$49 million, of the total debt service budget of \$61.7 million.

The City has adopted policies which guide its capital improvement planning and its issuance of long-term debt. These policies are intended to help the City maintain or improve its bond rating, and keep changes in debt service obligations at levels that do not reduce the City's ability to provide acceptable municipal and educational services to its citizens.

The following are the City's Capital Financing and Debt Management Policies:

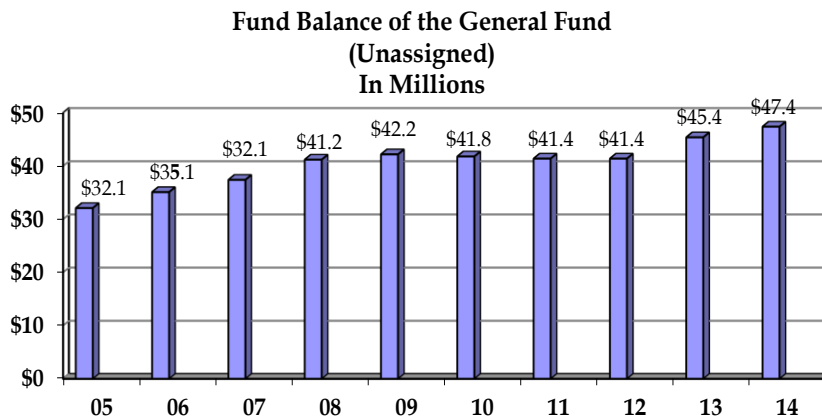
- The goal of the City is to maintain its debt burden at less than 3.0%. Debt burden is defined as the ratio of outstanding general obligation debt and capital lease obligations to value of the total taxable real and personal property. The projected FY 2015 debt burden is 2.5%.
- Because debt service obligations are primarily funded from school and municipal revenues received through the Operating Budget, the City's intent is that the ratio of

## CITY OF NEWPORT NEWS, VIRGINIA

debt service obligations to General Fund revenue shall not exceed nine and one-half percent (9.5%) in any fiscal year. For FY 2015 the ratio is projected to be 7.9%.

- The City's intent is to structure principal payments when issuing new General Obligation debt or refinancing existing debt, so that at least thirty percent (30%) of the outstanding debt is repaid within five years, and that at least sixty percent (60%) is repaid within ten years. Currently 43% of the outstanding debt is scheduled to be paid in five years, with 73% paid in ten years.
- So that the City may manage its debt capacity and remain within the parameters of its Capital Financing and Debt Management Policies, the City Manager provides the City Council with a thorough debt impact analysis on any proposed undertaking that requires financing through the issuance of short or long-term debt obligations, capital leases or debt guarantees.

During FY 2014, General Fund revenues exceeded expenditures, by \$3.5 million. The unassigned General Fund balance totaled \$47.4 million at June 30, 2014, or approximately 11% of annual General Fund revenues.



Since the recession began in September 2008, the real estate property tax base has experienced a decline of almost \$2 billion in assessments over the past six years, resulting in a cumulative loss of Real Estate Tax revenue of over \$20 million over the same time period. Fortunately, this decline is lower than some segments of the nation, but is consistent with nationwide reduction in home prices and the lowered market value of real estate. The loss of revenue from Real Estate Taxes was the lowest between FY 2014 and estimated for FY 2015, indicating stabilization of the housing market in some area, as well as recognized new construction projects that were scheduled to be completed in the upcoming fiscal year.

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Although the City's financial condition is better than others in the Commonwealth and the nation, there appears to be slow growth in City revenues as short term recovery continues, especially as revenue from state and federal programs continue to be flat, with the potential for some future decline. On the expense side, health care costs continue to move higher and the City's contribution to its Pension Fund is scheduled to increase 10% each year for the next two years.

The financial outlook for Fiscal Year 2014-2015 is stable, punctuated with some moderate revenue growth and continued cost-saving efforts. We feel that current management initiatives, along with prudent long-range strategic and comprehensive planning, will enable the City to generate sufficient resources to meet future service demands, maintain a stable financial position, protect the City's high credit rating, and maintain realistic and affordable tax burdens on the citizens of the City.

### *Significant Strategic Priority Accomplishments for FY 2014*

It is impossible to list all of the significant accomplishments and initiatives undertaken or completed during the year ended June 30, 2014, but some of the more significant are listed below.

#### *Operational Efficiencies and Fiscal Management*

In April 2014, the financial ratings agency Standard & Poor's (S&P) upgraded the City's long-term credit rating one level, from AA to AA+, which is S&P's second highest rating. A strong credit rating makes it easier for borrowers to gain access to capital, usually at a lower interest rate. Standard and Poor's assessed the City's outlook as stable noting, "We consider Newport News' management conditions very strong, supported by strong policies and practices. In our view, practices are strong, well embedded, and likely sustainable. The City recently adopted a detailed 5-year financial forecast for fiscal years 2015-2019, which it plans to update on at least an annual basis." With "very strong budgetary flexibility given its historically strong performance and good financial practices," the bond rating agency went on to note that they do not anticipate changing the rating in the next two years.

#### *Community Renewal, Maintenance and Enhancement*

- In May 2014, "The Unfinished March", a bas relief by renowned artist Ed Hamilton was unveiled in Dr. Martin Luther King, Jr. Plaza located at the intersection of 25<sup>th</sup> Street and Jefferson Avenue. The Dr. Martin Luther King, Jr. Plaza is now complete and actively used by citizens and visitors to Newport News.
- The City secured State Revenue Sharing Program allocations totaling \$3.3 million during FY 2014. Major projects supported by these funds include Campbell Road Reconstruction, Replacement of the Ft. Eustis Boulevard Bridge over the Newport News Reservoir, Lower Jefferson Avenue Streetscape Improvements, and Atkinson Boulevard Construction.

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- The City secured \$2 million in Regional Surface Transportation Program (RSTP) funds for design of the new Newport News Transportation Center. The City also secured \$19 million in Congestion Mitigation and Air Quality (CMAQ) funds and laid the ground work for \$20 Million dollars in Intercity Passenger Rail Operating and Capital (IPROC) funds for the construction of the facility. The facility will be located at Bland Boulevard near the overpass of CSX and provide enhanced Amtrak service to the area.
- Highway Safety Improvement Program Federal Grants provided about \$1.2 million for improvements to a railroad crossing and pedestrian improvements at major intersections.
- Construction was completed of several new or replacement park and recreation facilities during FY 2014, including a new \$177,000 community playground at King-Lincoln Park, fencing around the Community Garden in Lee Hall, accessible shelter walkways to each of the three shelters at King-Lincoln Park and a refurbished lobby at the Brittingham-Midtown Community Center. A multigenerational outdoor activity center next to the Denbigh Community Center was also completed at a cost of about \$400,000. The area includes both childrens' play equipment as well as low impact freestanding (and shaded) exercise units for older adults.
- The Jefferson Avenue Streetscape construction project from 25<sup>th</sup> to 36<sup>th</sup> Streets was completed. Phase II of the project from 12<sup>th</sup> to 25<sup>th</sup> Streets is now under design and will continue to beautify the lower Jefferson Avenue corridor with new curb and gutter, paving and crosswalks with designated on-street parking, wide landscaped sidewalks with street trees and decorative signal and light poles.
- Phase II of the restoration of the Lee Hall Depot was completed in FY 2014. This phase involved approximately \$800,000 in ISTEPA and other funding, and included replacement of this historic structure's windows, doors, loading dock and roof – as well as addition of utilities, parking, landscaping, sidewalks and associated ADA improvements.
- The Robinson-Bruton Neighborhood Park was officially dedicated on October 19, 2013. While much of the park (playground, fencing, landscaping) had been completed in the prior year, additional work, including a picnic shelter and new fencing around the site's historic cemetery, were completed in FY 2014.
- Several notable improvements were made at the City's historic sites during FY 2014, including refurbishing the T-97 self-propelled howitzer and the M1917 tank at the Virginia War Museum, adding exterior lighting to Causey's Mill, installing shutters and carpeting in the 1884 Warwick Courthouse and designing/fabricating/installing several historical didactic panels for King-Lincoln Park.

## CITY OF NEWPORT NEWS, VIRGINIA

- Special operating funding provided for the replacement of over 100 urban street trees in FY 2014 which had been severely damaged or destroyed by storms, vehicles or disease.

### *Environmental Stewardship and Sustainability*

- Newport News Waterworks received the Exemplary Forest Steward Award by the Alliance for the Chesapeake Bay, the U. S. Forest Service and their partners. The award recognizes forest champions throughout the Chesapeake Bay watershed and their outstanding efforts to conserve, restore and celebrate Chesapeake forests. The 12,000 acres of land managed by Waterworks along with Parks, Recreation & Tourism provides many uses, with maintaining and enhancing water quality as the primary objective.

The City was awarded a matching funds grant of \$2.9 million from the Virginia General Assembly Stormwater Local Assistance Fund for planning, design, and implementing stormwater best management practices which address cost efficiencies and commitments related to reducing pollutant loads and improving water quality.

- The City of Newport News was recognized as a Gold Medal Winner of the Governor's Environmental Excellence Award for significant contributions to environmental and conservation leadership in sustainability with its comprehensive sustainability program, a product of citizen input and local government leadership which maps out a long-term strategic approach to becoming a greener community.
- The City became a Virginia Environmental Excellence Program Sustainability Partner recognizing the leadership, innovation, and continual improvement efforts of the City which have been shown to facilitate direct and indirect improvements in energy usage, water usage, waste generation, and other environmental benefits.
- Under the auspices of the Community Maintenance program, the Department of Planning coordinated the Right Tree, Right Place initiative to remove diseased and damaged trees in a 42 block area of one of the City's denser urban neighborhoods. Seventy-one (71) trees were removed and 231 trees were planted. The new trees are better able to withstand the urban environment, street context and soils, creating a more sustainable urban environment and larger tree canopy for the neighborhood.

### *Public Safety*

- In January, 2014, Richard W. Myers was named Chief of Police for the Newport News Police Department. To leverage community resources, Chief Myers has engaged with the Newport News Shipbuilding and requested their assistance in revamping the Police Department's Strategic Management Plan.

## CITY OF NEWPORT NEWS, VIRGINIA

- The Police Department received a three-year COPS Hiring Grant which allowed the department to hire ten police officers. The federal grant will provide \$1.25 million in salaries and fringe benefits for the ten officers over the three year grant period.
- In August 2013, the Newport News Fire Department (NNFD) was re-accredited by the Center for Public Safety Excellence (CPSE) as a result of a peer review completed by a team of Chief Fire Officers from around the United States, who came to the City to validate the data and competencies that were submitted as part of the process for re-accreditation. NNFD is one of only 183 accredited fire departments in the world.
- In January, 2014, R. B. Alley was named Fire Chief for the Newport News Fire Department and continues to implement improved practices identified as part of the reaccreditation process.
- The Fire Department purchased two new fire engines and two new ambulances at a cost over \$1.1 million to ensure the reliability of the fleet to provide emergency services to the citizen and visitors. The Fire Department also received \$240,000 in federal grants, part of which were used to enhance the Citizens Emergency Response Team (CERT) capabilities and training programs.

### *Other Community and Citizen Services*

The youth program of the Pearl Bailey Library was one of 12 after-school programs from across the country chosen as winners of the 2013 National Arts and Humanities Youth Program Award (NAHYP) by the President's Committee on the Arts and the Humanities and its partner agencies, the Institute of Museum and Library Services, the National Endowment for the Arts, and the National Endowment for the Humanities. Pearl Bailey Library's youth program was honored on November 22, 2013, at the White House by First Lady Michelle Obama. It was selected to receive the award from a pool of more than 350 nominees and 50 finalists for after-school and out-of-school-time programs which generate positive youth outcomes.

- The Library System received three state-wide awards for libraries serving more than 80,000 citizens. The awards were in the categories of social media, innovative services and youth programs from the Virginia Public Library Directors Association.
- Construction began in April 2014 to convert a wing of the South Morrison Family Education Center into the Library System's expanded South Morrison Public Library and Early Literacy Center. The Center will provide help for preschoolers needing extra help in early literacy development, and also include computer labs and a teen area.
- Over 1,000 adults, children and teens participated in the Newport News Library system's 2013 Summer Reading Program.

## CITY OF NEWPORT NEWS, VIRGINIA

- The City's libraries had over 829,000 visitors in FY 2014, who checked out over 950,000 books and DVD's. Over 256,000 visitors used library computers.
- 2014 was a significant anniversary year for several popular community events, including the 25<sup>th</sup> Annual Children's Festival of Friends, the 40<sup>th</sup> Fall Festival of Folklife, the 10<sup>th</sup> Hollydazzle and the 21<sup>st</sup> Celebration in Lights.
- The City hosted a variety of State and National sports championships during FY 2014, including the State Table Tennis Championship (at Denbigh Community Center in October, 2013). The City also hosted the 2014 Virginia Senior Games in May (the Games were also sponsored by the City in 2013). This Statewide competition, co-sponsored by the Virginia Recreation and Parks Society and Christopher Newport University, involved 1,022 athletes (age 50 and up), from across the Commonwealth who competed in over 19 different sports at 10 City facilities and 5 private facilities. 2014 was a qualifying year for athletes to qualify for the 2015 National Senior Games.

### *Public Utilities (Waterworks)*

- After 24 years of service, the Harwood's Mill water treatment plant is undergoing improvements to maintain reliability and to meet changing regulations for water treatment, reliability and safety. The use of chlorine gas is being replaced with a hypochlorite feed system, providing a safer and more secure means of introducing chlorine into the treatment process. The project includes a new intake water bar screen, a new finished water pump with variable frequency drive (which allows the pump to operate at varying capacities) and concrete repairs for the treatment basins. The project is scheduled to be complete by the end of FY 2015.
- Rehabilitation work on the 30-year old Langley View elevated water storage tank was completed in FY 2014. This important 1 million gallon capacity tank, located in the City of Hampton, was repainted and recoated inside and outside, had all metals and welds inspected, and other minor repairs made. Work is now underway to rehabilitate a 5 million gallon capacity ground storage tank in upper York County.

### Awards

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Newport News for its comprehensive annual financial report (CAFR) for the year ended June 30, 2013. This was the 35<sup>th</sup> consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for the City's 36<sup>th</sup> consecutive certificate.

## CITY OF NEWPORT NEWS, VIRGINIA

### Acknowledgments

The preparation of this report could not be accomplished without the dedicated service of the staff of the Department of Finance. We would like to express our appreciation to all members of the Finance Department, especially the Accounting staff and the City's CAFR Team, as well as the other City departments and agencies contributing to the completion of this report. We also gratefully acknowledge the members of City Council for their leadership and guidance in establishing sound and progressive financial management policies.

Respectfully submitted,



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James M. Bourey  
City Manager



---

Tom Mitchell  
Director of Finance

## **CITY OF NEWPORT NEWS, VIRGINIA**

### **CITY GOVERNMENT OFFICIALS (at June 30, 2014)**

#### **City Council**

McKinley L. Price, DDS .....	Mayor
Herbert H. Bateman, Jr .....	Vice Mayor
Robert Coleman .....	Member
Sharon P. Scott.....	Member
Tina L. Vick .....	Member
Joseph C. Whitaker .....	Member
Dr. Patricia P. Woodbury .....	Member

#### **Office of the City Manager**

James M. Bourey.....	City Manager
Cynthia D. Rohlf .....	Assistant City Manager
Alan K. Archer .....	Assistant City Manager

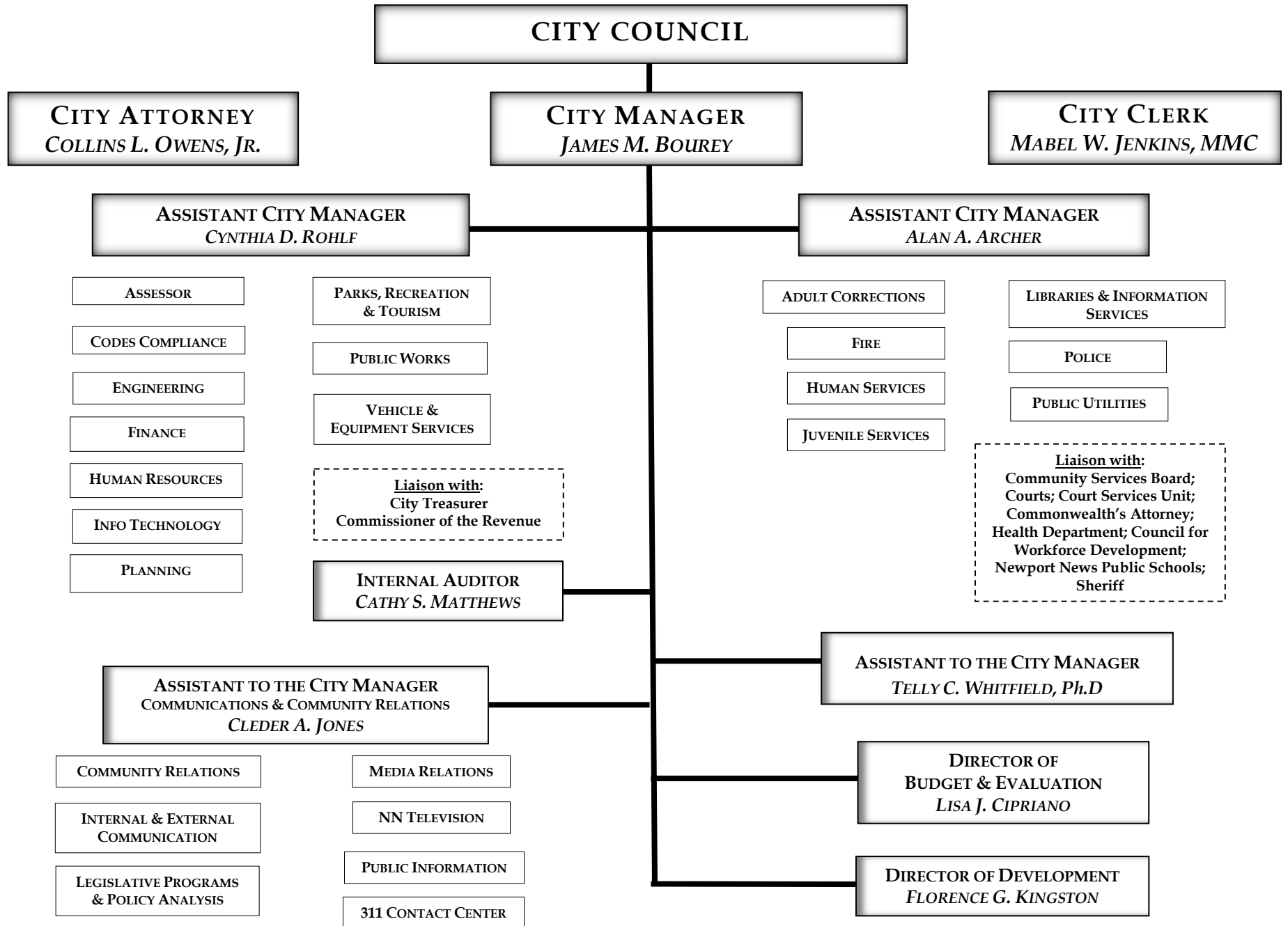
#### **Department of Finance**

Tom Mitchell .....	Director of Finance
Tonya O'Connell.....	Assistant Director of Finance
Lilisa Perey .....	Accounting Manager

#### **Other Officials**

Marty Eubank.....	City Treasurer
Pricilla S. Bele. ....	Commissioner of the Revenue
Charles T. Vester .....	Real Estate Assessor
Lisa Cipriano .....	Director of Budget and Evaluation
Florence G. Kingston .....	Director of Development
Cathy S. Matthews .....	Director of Internal Audit
Kofi A. Boateng .....	Director of Public Utilities

Councilman Herbert Bateman, Jr. served as Vice Mayor until June 30, 2014. On July 8, 2014, Councilman Robert Coleman was elected by Council members as Vice Mayor. Councilman Whitaker's term on City Council ended on June 30, 2014. Subsequently, Councilwoman Cherry was elected to the City Council, effective July 1, 2014.





Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**City of Newport News  
Virginia**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

A handwritten signature in black ink, reading "Jeffrey R. Egan". The signature is fluid and cursive.

Executive Director/CEO

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## **Report of Independent Auditor**

To the Honorable Members of City Council  
City of Newport News, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newport News, Virginia (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City'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 accounting principles generally accepted in the United States of America; 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.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Peninsula Airport Commission, which represents 24.00% of the respective assets and 6.69% of the respective operating revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors, whose report thereon has been furnished to us, and our opinions, insofar as it relates to the amounts included for the Peninsula Airport Commission, are based on the report of the other auditor. We conducted our audit 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*, 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 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 auditor's 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.

### **Opinions**

In our opinion, based on our audit and the report of other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newport News, Virginia, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective July 1, 2013. Additionally, the Employees' Retirement Trusts for Pension and Other Postemployment Benefits adopted the provisions of Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*, effective July 1, 2013. Our opinions are not modified with respect to these matters.

## **Other Matters**

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, pension information and related notes on pages 3-13, 100-104, 105-107 and 108-109, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Newport News, Virginia's basic financial statements. The Introductory Section, Supplementary Information, and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The Supplementary Information and the Schedule of Expenditures of Federal Awards 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 Supplementary Information and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2014, on our consideration of the City of Newport News, Virginia'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 of Newport News, Virginia's internal control over financial reporting and compliance.

*Cheryl Behrman CP*

Richmond, Virginia  
November 25, 2014

**CITY OF NEWPORT NEWS, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following is a narrative overview and analysis of the financial activities of the City of Newport News, Virginia (the City) as of and for the fiscal year ended June 30, 2014 (FY 2014). This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which have the following components: (1) management's discussion and analysis (MD&A), (2) government-wide financial statements, (3) fund financial statements, and (4) notes to the financial statements.

**FINANCIAL HIGHLIGHTS FOR FY 2014**

At the end of the fiscal year, the City's governmental activities' assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$185.8 million. This amount represents an increase of \$11.2 million or 6.4%, over prior year's ending balance of \$174.6 million (restated). Prior year balances were restated to reflect the implementation of Governmental Accounting Standards Board's Statement Number 65, *Items Previously Reported as Assets and Liabilities* (GASB 65) (Table 1 and Table 2).

**General Fund**

- At the close of FY 2014, unassigned fund balance for the General Fund was \$47.4 million or 11% of FY 2014 total General Fund revenues and transfers in.
- General Fund revenues and transfers increased \$18.3 million or 4.4% above FY 2013, due to an increase in general taxes, primarily real property taxes. Expenditures and transfers out increased \$15.0 million, 3.7% higher than the prior fiscal year. FY 2014 expenditures and transfers out were 0.6% more than budget.
- The City's real estate tax rate was increased to \$1.22 from \$1.10 per \$100 of assessed valuation for FY 2014. The tax rate on personal property of \$4.50 of assessed valuation per \$100 remained unchanged for FY 2014.

**Governmental Activities**

- The assets and deferred outflows of resources of the City, for its governmental activities, exceeded recorded liabilities and deferred inflows of resources at June 30, 2014 by \$185.8 million. Of this amount, \$11.1 million is restricted. The City ended the year with unrestricted assets (deficit) of \$169.5 million.
- The City's total bonded debt increased by approximately \$5.4 million during the current fiscal year, due to the issuance of \$101.1 million of new or refunded bonds and repayments of \$95.7 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## OVERVIEW OF THE FINANCIAL STATEMENTS

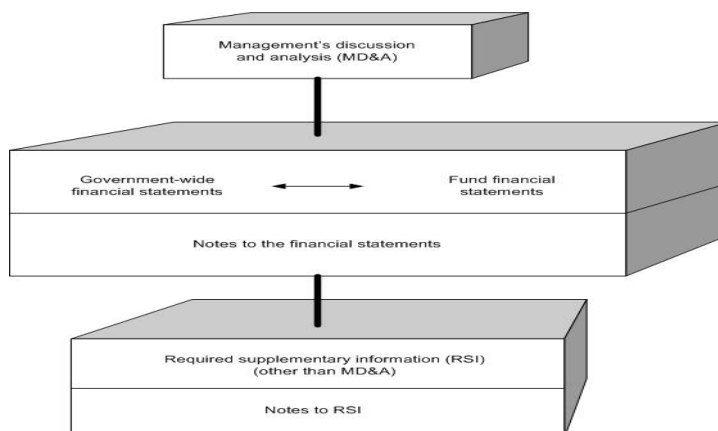
The City's basic financial statements comprise three components: *government-wide financial statements, fund financial statements, and notes to the financial statements*. This report also contains other supplementary information in addition to the basic financial statements themselves.

- The first two statements are *government-wide financial statements* which provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements which focus on individual parts of the City's government, reporting the City's operations in more detail than the government-wide statements.
- *Governmental fund* statements tell how general government services like public safety and street maintenance were financed in the short term as well as what amounts remain for future spending.
- *Proprietary fund* statements offer short- and long-term financial information about the activities the government operates like businesses, such as the public utilities (Waterworks) system.
- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong. The Pension fund is an example of a fiduciary fund of the City.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A shows how the required parts of this Management’s Discussion and Analysis and the City’s basic financial statements are arranged and relate to one another.

### Figure A

## Required Components of Newport News' Financial Statements



## **CITY OF NEWPORT NEWS, VIRGINIA**

### **MANAGEMENT’S DISCUSSION AND ANALYSIS**

#### **Government-Wide Statements**

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position and the Statement of Activities, which are the government-wide statements, include all of the government’s assets and liabilities using the accrual basis of accounting. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

These two government-wide statements report the City’s net position and how it has changed. Net position—the difference between the City’s assets and deferred outflows and liabilities and deferred inflows—is one way to measure the City’s financial health, or financial position. Over time, increases or decreases in the City’s net position is an indicator of whether its financial health is improving or deteriorating. Other non-financial factors, such as changes in the City’s property tax base and the condition of the City’s roads and other infrastructure, also need to be considered to assess the overall health of the City.

In the Statement of Net Position and the Statement of Activities, the City’s activity is shown in three categories:

- *Governmental activities* – Most of the City’s basic services are included here, such as the police, fire, public works, parks, internal services and general administration. Taxes, state and federal grants finance most of these activities.
- *Business-type activities* – The City charges fees to customers to help cover the costs of certain services it provides. The operation and performance of the City’s public utility, the Waterworks division, is included here.
- *Component units* – The City includes three other separate legal entities in its report - the Peninsula Airport Commission (PAC), the Economic and Industrial Development Authorities (E/IDA), and the Newport News Public Schools (Schools). Although legally separate, these “component units” are included with the City financial statements because for E/IDA and Schools, the City provides a significant portion of their operating funding, and for PAC, the City appoints four of their six commission members, thereby exhibiting significant control over the organization.

#### **Fund Financial Statements**

The fund financial statements provide more detailed information about the City’s most significant funds, not the City as a whole. Funds are accounting mechanisms that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Virginia law and by bond covenants, while City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

## **CITY OF NEWPORT NEWS, VIRGINIA**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City has three types of funds:

- *Governmental funds* – Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets can readily be converted to cash flow to support the operations of the City and (2) the balances remaining at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund statements.
- *Proprietary funds* – The City maintains two different types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Enterprise funds include the Public Utility Fund. Internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for the operation of vehicles and equipment and includes this activity in its government-wide financial statements.
- *Fiduciary funds* – The City is the trustee, or fiduciary, for certain donated funds. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in this fund are used for their intended purpose. The fiduciary funds include the Pension and Other Postemployment Benefits Trust Funds and Agency Funds. These activities are reported in a separate statement of fiduciary net position. The City excludes this activity from its government-wide financial statements because the City cannot use these assets to finance its operations.

The Total Governmental Funds column requires reconciliation because of the different measurement focus from the government-wide statements (current financial resources versus total economic resources), which is reflected on the page following each statement. For example, the flow of current financial resources will reflect bond proceeds and interfund transfers as other financing sources as well as capital expenditures and bond principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligations (bonds and others) into the Governmental Activities column in the government-wide statements.

#### **Notes to the Basic Financial Statements**

The notes to the financial statements provide additional information that is essential for a full understanding of the information provided in the government-wide and fund financial statements. The notes also present certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other postemployment benefits to its employees.

**CITY OF NEWPORT NEWS, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statement of Net Position**

The following table reflects the condensed net position:

**Table 1 - Summary of Net Position (in millions):**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2014</b>	<b>2013*</b>	<b>2014</b>	<b>2013*</b>	<b>2014</b>	<b>2013*</b>
Current and other assets	\$ 226.7	\$ 191.9	97.1	90.9	323.8	282.8
Capital assets, net	703.2	697.2	381.8	385.3	1,085.0	1,082.5
Total assets	<u>\$ 929.9</u>	<u>\$ 889.1</u>	<u>478.9</u>	<u>476.2</u>	<u>1,408.8</u>	<u>1,365.3</u>
Deferred outflows of resources	\$ 14.6	\$ 11.3	3.2	2.7	17.8	14.0
Current and other liabilities	\$ 96.6	\$ 94.3	55.4	52.1	152.0	146.4
Long-term liabilities	661.3	631.5	128.0	143.9	789.3	775.4
Total liabilities	<u>\$ 757.9</u>	<u>\$ 725.8</u>	<u>183.4</u>	<u>196.0</u>	<u>941.3</u>	<u>921.8</u>
Deferred inflows of resources	0.8	-	-	-	0.8	-
Net position:						
Net investment in						
capital assets	344.2	320.4	243.5	231.4	587.7	551.8
Restricted	11.1	9.4	28.0	30.4	39.1	39.8
Unrestricted (Deficit)	(169.5)	(155.2)	27.2	21.1	(142.3)	(134.1)
Total net position	<u>\$ 185.8</u>	<u>\$ 174.6</u>	<u>298.7</u>	<u>282.9</u>	<u>484.5</u>	<u>457.5</u>

\*Balances were restated to reflect implementation of GASB 65.

Net position (the excess of assets and deferred outflows over liabilities and deferred inflows) may serve as a useful indicator, over time, of the strength of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$484.5 million at the close of fiscal year 2014, which is an increase from the net position at June 30, 2013 of \$457.5 million (restated). By far, the largest portion of the City's net position is its investment in capital assets (e.g., land, buildings, equipment, and infrastructure) less accumulated depreciation and less any related outstanding debt used to acquire those assets. The City uses these assets to provide services to its citizens and consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Approximately 8.1% of the City's net position is subject to external restrictions, mostly for the use of bond proceeds for Waterworks projects.

**CITY OF NEWPORT NEWS, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Governmental Activities**

Net position of the City's governmental activities increased from \$174.6 million (restated) at June 30, 2013 to \$185.8 million at June 30, 2014 as a result of the excess of revenues over expenses for FY 2014 of \$11.2 million as shown on the Statement of Activities (Table 2 following).

**Business-type Activities**

The City's public utility (Waterworks) is an enterprise operation. The net position of Waterworks increased from \$282.9 million (restated) to \$298.7 million, as a result of its positive operating results for FY 2014. The City generally may use the net position of the enterprise fund to finance the continuing operations of its Waterworks operation.

**Statement of Activities**

The following table shows the revenues and expenses of the governmental and business-type activities:

**Table 2 - Changes in Net Position (in millions):**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2014</b>	<b>2013*</b>	<b>2014</b>	<b>2013*</b>	<b>2014</b>	<b>2013*</b>
Revenues:						
Program revenues:						
Charges for services	\$ 73.1	68.2	85.6	76.1	158.7	144.3
Operating grants and contributions	41.2	39.2	-	-	41.2	39.2
Capital grants and contributions	8.2	6.5	-	-	8.2	6.5
General revenues:						
Property taxes	246.1	229.8	-	-	246.1	229.8
Other taxes	96.4	96.5	-	-	96.4	96.5
Grants and contributions not restricted to specific programs	42.2	41.5	2.3	2.8	44.5	44.3
Investment earnings	2.3	2.3	0.2	0.2	2.5	2.5
Miscellaneous	9.4	3.9	-	-	9.4	3.9
Total revenues	<u>518.9</u>	<u>487.9</u>	<u>88.1</u>	<u>79.1</u>	<u>607.0</u>	<u>567.0</u>
Expenses:						
General government	98.3	85.5	-	-	98.3	85.5
Judicial administration	6.8	6.8	-	-	6.8	6.8
Public safety	116.0	113.3	-	-	116.0	113.3
Public works	72.2	70.3	-	-	72.2	70.3
Health and welfare	40.9	42.3	-	-	40.9	42.3
Education	119.7	116.6	-	-	119.7	116.6
Parks, recreation and culture	32.8	34.0	-	-	32.8	34.0
Community development	9.8	11.2	-	-	9.8	11.2
Public utility	-	-	62.9	63.4	62.9	63.4
Interest and other fiscal charges	20.6	24.3	-	-	20.6	24.3
Total expenses	<u>517.1</u>	<u>504.3</u>	<u>62.9</u>	<u>63.4</u>	<u>580.0</u>	<u>567.7</u>
Excess (deficiency) before transfers	1.8	(16.4)	25.2	15.7	27.0	(0.7)
Transfers	9.4	9.9	(9.4)	(9.9)	-	-
Change in net position	<u>11.2</u>	<u>(6.5)</u>	<u>15.8</u>	<u>5.8</u>	<u>27.0</u>	<u>(0.7)</u>
Beginning net position - (restated)	174.6	181.1	282.9	277.1	457.5	458.2
Ending net position	<u>\$ 185.8</u>	<u>174.6</u>	<u>298.7</u>	<u>282.9</u>	<u>484.5</u>	<u>457.5</u>

\*Balances were restated to reflect implementation of GASB 65

**CITY OF NEWPORT NEWS, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

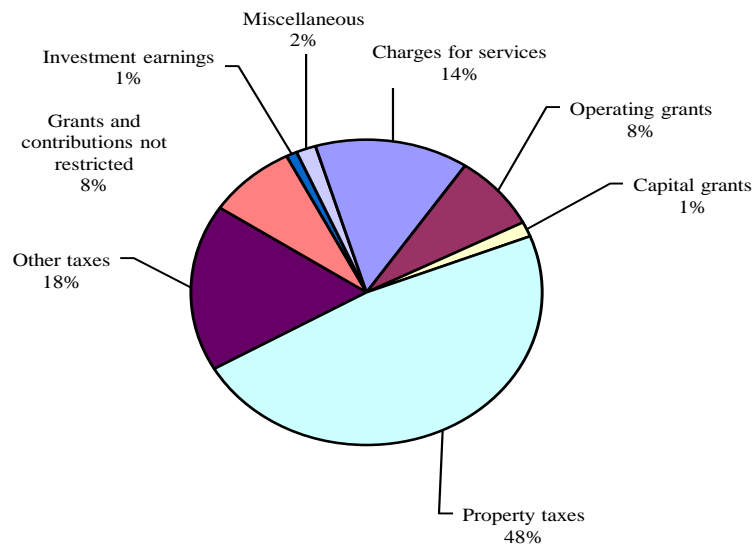
**Governmental Activities**

The City's total revenues from governmental activities were \$518.9 million for the fiscal year ended June 30, 2014. The largest source of revenue (\$246.1 million for FY 2014) is real estate and personal property taxes. The City's assessed real property tax base for FY 2014 decreased .6%.

Approximately 66% of the City's revenue from governmental activities comes from some type of tax and 14% comes from fees charged for services.

The City's expenses cover a wide range of services, with 22.4%, or \$116.0 million, for FY 2014 related to public safety and 23.1%, or \$119.7 million, for FY 2014 for education (payments to the Schools component unit).

**Revenues by Source – Governmental Activities**



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**CITY OF NEWPORT NEWS, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Business-type Activities**

The net position for the City's business-type's activities increased by \$15.8 million as a result of revenues exceeding the expenses of the operations. Charges for services make up 97.1% of total revenues for the City's business-type activities.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**General Fund**

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the general fund balance was \$97.2 million of which \$47.4 million represents the unassigned fund balance. As a measure of the General Fund's liquidity, it is useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 13% of the total fund expenditures (11% of total revenues), while total fund balance represents 26%.

**Debt Service Fund**

The Debt Service Fund has a fund balance of \$1.6 million. During FY 2014, the fund balance increased by \$0.1 million.

**Bond Fund**

The Bond Fund accounts for the proceeds of general obligation bond issues except those of the Proprietary Funds. The Bond Fund accounts increased from \$23.6 million at June 30, 2013 to \$45.3 million at June 30, 2014, as a result of a sale of bonds with a face value of \$45 million, which netted proceeds of \$52.5 million, and had capital expenditures of \$29.5 million.

**Proprietary Funds**

The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. The internal service fund (Vehicle Services) is reported with government activities.

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**CITY OF NEWPORT NEWS, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

**General Fund (Budget Basis)**  
**Fiscal Year 2014**

		<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual (Budget Basis)</b>
Revenues:				
Taxes	\$	339,733,110	339,733,110	341,948,570
Intergovernmental		41,524,772	41,603,639	42,216,776
Other		46,288,983	46,288,983	46,439,951
Total		<u>427,546,865</u>	<u>427,625,732</u>	<u>430,605,297</u>
Expenditures and Transfers:				
Expenditures		385,772,396	385,851,263	382,756,009
Transfers out		41,774,469	42,088,469	47,613,740
Total		<u>427,546,865</u>	<u>427,939,732</u>	<u>430,369,749</u>
Change in fund balance	\$	<u>-</u>	<u>(314,000)</u>	<u>235,548</u>

The difference between the original budget and the final amended budget for the City's General Fund expenditures was approximately \$.39 million representing an increase in appropriations. The variance is mainly due to the following expenditures and transfers:

- \$ 0.31 million General Fund Reserve - Sanitary Sewer Extension
- \$ 0.08 million Circuit Court Clerk - Technology Enhancements

Actual General Fund revenues and transfers from other funds were above the final budgeted revenues by \$2.98 million because of higher than expected tax revenue. Expenditures were under budget by \$3.1 million due to spending restraints put in place during the fiscal year and transfers out were over budget by \$5.5 million due to additional funding for capital projects.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2014 totaled \$1,085.0 million (net of depreciation). This investment includes land, buildings and improvements, drainage and water/sewer systems, machinery and equipment, roads, bridges, and construction in progress.

Construction in progress totaled \$75.6 million for governmental activities at the end of FY 2014 (including certain Public Schools projects under construction).

Construction in progress totaled \$18.8 million for business-type activities at the end of the fiscal year including the following projects: Walker's Dam rehabilitation, \$12.7 million; Lee Hall Dam

**CITY OF NEWPORT NEWS, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

improvements, \$2.6 million; Harwoods Mill modernization, \$1.1 million, and Jefferson Avenue Streetscape, \$0.5 million.

**City of Newport News' Capital Assets (net of depreciation):**

	Governmental Activities		Business-type Activities		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 88,794,145	\$ 87,524,612	7,302,367	7,133,367	96,096,512	94,657,979
Construction in progress	75,563,889	53,633,244	18,835,117	15,369,666	94,399,006	69,002,910
Buildings	229,441,672	235,956,177	102,585,159	106,319,957	332,026,831	342,276,134
Water systems	-	-	232,655,204	234,891,100	232,655,204	234,891,100
Improvements	95,975,206	98,516,981	10,465,907	11,462,272	106,441,113	109,979,253
Machinery and equipment	45,415,290	49,240,447	9,960,969	10,141,822	55,376,259	59,382,269
Infrastructure	168,008,561	172,320,445	-	-	168,008,561	172,320,445
	<u>\$ 703,198,763</u>	<u>\$ 697,191,906</u>	<u>381,804,723</u>	<u>385,318,184</u>	<u>1,085,003,486</u>	<u>1,082,510,090</u>

Additional information on the City's capital assets can be found in note 4 to the basic financial statements.

**Long-Term Debt**

At the end of the current fiscal year, the City had total outstanding debt (including literary loans) of \$523.7 million, a decrease of 1.6% from last year, as shown in the table below. Capital leases, landfill liability, accrued vacation, net pension obligations, other postemployment benefit obligations and claims payable are not included in these figures.

**City of Newport News' Outstanding Debt, General Obligation Bonds, Literary Loans and Revenue Bonds (in millions):**

	Governmental Activities		Business-type Activities		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
General obligation bonds	\$ 383.8	378.3	98.6	111.4	482.4	489.7
Literary loans	5.4	5.9	-	-	5.4	5.9
Revenue bonds	-	-	35.9	36.8	35.9	36.8
Total	<u>\$ 389.2</u>	<u>384.2</u>	<u>134.5</u>	<u>148.2</u>	<u>523.7</u>	<u>532.4</u>

The amount of the debt outstanding related to School Board activities is \$94.0 million of the total outstanding general obligation bonds of the governmental activities.

The City issued new debt during the year totaling \$101.1 million in the form of general obligation bonds.

The City received an AA+ rating from Standard & Poor's Corporation in May 2014. The City maintains an Aa1 rating from Moody's Investors Services.

**CITY OF NEWPORT NEWS, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Additional information on the City's long-term debt can be found in Note 7 to the basic financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

The unemployment rate in June 2014 for the City was 6.4%, which is a decrease from the average for 2013 of 6.9%, and is consistent with other areas of the Commonwealth. The City's annual population increased slightly from approximately 180,726 at the end of fiscal year 2013 to 182,020 at the end of fiscal year 2014 according to US Census estimates.

The FY 2015 approved revenue budget for the General Fund increased by 3.3% compared to the FY 2014 adopted budget. The FY 2015 budget includes allocations for 7,243 positions, a net decrease of 40 positions from the FY 2014 budget.

City management believes that it will be several years before economic activity returns to prior levels. Strategic focus areas include providing the capital assets required to maintain City assets and operations in an environmentally friendly way, providing the funding to Schools for improvement in educational opportunities for students, promoting opportunities for economic development and job creation, and maintaining a motivated and service focused workforce.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Finance, 2400 Washington Avenue, Newport News, Virginia 23607.

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**CITY OF NEWPORT NEWS, VIRGINIA**  
Statement of Net Position  
June 30, 2014

Assets	Primary government			Discretely presented component units	
	Governmental activities	Business-type activities	Total	Public schools	Others
Cash and cash equivalents	\$ 119,791,000	38,940,491	158,731,491	42,441,762	13,224,169
Restricted cash and investments	51,251,365	28,007,541	79,258,906	-	15,508,764
Accounts receivable, net	19,984,833	12,920,856	32,905,689	139,148	5,261,145
Receivable from Industrial Development Authority	10,156,140	-	10,156,140	-	-
Receivable from Primary Government	-	-	-	541,161	-
Receivables from other governments	22,177,321	-	22,177,321	13,959,707	-
Inventory, at cost	1,836,526	3,433,092	5,269,618	1,405,170	79,627
Land held for lease or resale	-	7,102,444	7,102,444	-	26,696,686
Wetlands credits	-	6,662,667	6,662,667	-	-
Net investment in direct financing leases	-	-	-	-	1,040,904
Capital assets:					
Nondepreciable capital assets:					
Land	88,794,145	7,302,367	96,096,512	2,505,084	6,604,658
Construction in progress	75,563,889	18,835,117	94,399,006	1,427,742	9,365,018
Depreciable capital assets:					
Buildings	348,673,753	152,185,865	500,859,618	46,849,002	183,720,830
Improvements	188,008,758	-	188,008,758	52,044,860	14,274,715
Water system	-	408,192,327	408,192,327	-	-
Airport assets	-	-	-	-	159,638,820
Machinery and equipment	144,147,235	34,881,764	179,028,999	65,224,874	4,330,501
Infrastructure	496,886,168	-	496,886,168	-	2,543,500
Total capital assets	1,342,073,948	621,397,440	1,963,471,388	168,051,562	380,478,042
Less accumulated depreciation	(638,875,185)	(239,592,717)	(878,467,902)	(95,097,945)	(120,620,271)
Capital assets, net	703,198,763	381,804,723	1,085,003,486	72,953,617	259,857,771
Restricted assets:					
Permanently restricted cash	1,526,641	-	1,526,641	-	-
Other assets	-	-	-	16,598,335	2,198,562
Total assets	929,922,589	478,871,814	1,408,794,403	148,038,900	323,867,628
<b>Deferred Outflows of Resources</b>					
Deferred swap outflow	-	-	-	-	2,887,589
Debt refundings resulting in loss transactions	14,635,199	3,200,496	17,835,695	-	7,451,793
Total deferred outflows	14,635,199	3,200,496	17,835,695	-	10,339,382
<b>Liabilities</b>					
Accounts payable	\$ 18,251,356	2,328,032	20,579,388	4,942,652	4,324,663
Accrued liabilities	7,069,655	3,606,227	10,675,882	27,113,880	547,113
Deposits	3,679,867	3,359,012	7,038,879	-	198,792
Unearned revenues	199,025	32,600,925	32,799,950	67,549	-
Payable to Newport News Public Schools	541,161	-	541,161	-	-
Payable to Primary Government	-	-	-	-	10,156,140
Due to Pension Fund	2,327,525	-	2,327,525	-	-
Due to OPEB Fund	873,075	-	873,075	-	-
Nonexchange financial guarantee	-	-	-	-	4,454,518
Long term liabilities:					
Due within one year	63,685,730	14,417,897	78,103,627	4,225,554	9,270,601
Due in more than one year	661,336,888	127,045,904	788,382,792	38,711,730	112,243,187
Total liabilities	757,964,282	183,357,997	941,322,279	75,061,365	141,195,014
<b>Deferred Inflows of Resources</b>					
Property taxes collected in advance	776,472	-	776,472	-	-
Deferred grant proceeds	-	-	-	438,490	-
Total deferred inflows	776,472	-	776,472	438,490	-
<b>Net Position</b>					
Net investment in capital assets	344,253,405	243,541,418	587,794,823	68,663,254	153,021,308
Restricted for:					
Capital projects	2,179,534	28,007,541	30,187,075	917,812	14,063,839
Debt service	1,526,641	-	1,526,641	-	1,444,925
Grants	2,632,344	-	2,632,344	-	-
Other governmental purposes	4,766,515	-	4,766,515	4,044,917	-
Unrestricted (deficit)	(169,541,405)	27,165,354	(142,376,051)	(1,086,938)	24,481,924
Total net position	185,817,034	298,714,313	484,531,347	72,539,045	193,011,996

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**

Statement of Activities

Year ended June 30, 2014

		Program revenues			Net (expense) revenue and changes in net position				
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Primary government Business-type activities	Total	Public schools	Other component units
	Expenses								
Primary government:									
Governmental activities:									
General government	\$ 98,295,537	10,291,405	-	8,261,793	(79,742,339)	-	(79,742,339)		
Judicial administration	6,801,427	2,992,484	1,000,618	-	(2,808,325)	-	(2,808,325)		
Public safety	116,029,097	6,940,348	3,814,503	-	(105,274,246)	-	(105,274,246)		
Public works	72,201,809	45,729,958	15,491,645	-	(10,980,206)	-	(10,980,206)		
Health and welfare	40,894,433	33,487	3,819,588	-	(37,041,358)	-	(37,041,358)		
Education	119,743,781	-	13,834,357	-	(105,909,424)	-	(105,909,424)		
Parks, recreation and culture	32,804,044	6,757,221	366,881	-	(25,679,942)	-	(25,679,942)		
Community development	9,764,564	326,130	2,902,552	-	(6,535,882)	-	(6,535,882)		
Interest and other fiscal charges	20,607,931	-	-	-	(20,607,931)	-	(20,607,931)		
Total governmental activities	517,142,623	73,071,033	41,230,144	8,261,793	(394,579,653)	-	(394,579,653)		
Business-type activities:									
Public utility	63,629,010	85,580,834	-	2,327,993	-	24,279,817	24,279,817		
Total business-type activities	63,629,010	85,580,834	-	2,327,993	-	24,279,817	24,279,817		
Total primary government	\$ 580,771,633	158,651,867	41,230,144	10,589,786	(394,579,653)	24,279,817	(370,299,836)		
Component units:									
Public Schools	\$ 312,709,478	6,027,000	62,988,257	858,967				(242,835,254)	-
Peninsula Airport Commission	19,367,178	7,732,935	-	10,063,124					(1,571,119)
Economic and Industrial Development Authorities	28,058,931	27,847,455	-	-				-	(211,476)
Total component units	\$ 360,135,587	41,607,390	62,988,257	10,922,091				(242,835,254)	(1,782,595)
General revenues:									
City Taxes:									
General property					246,119,180	-	246,119,180	-	-
E-911 service					637,060	-	637,060	-	-
Local sales and use					22,426,753	-	22,426,753	-	-
Consumers' utility					6,279,595	-	6,279,595	-	-
Consumption					709,174	-	709,174	-	-
Telecom sales and use					11,697,528	-	11,697,528	-	-
Business license					15,750,751	-	15,750,751	-	-
Rental car					1,041,657	-	1,041,657	-	-
Motor vehicle license					4,103,933	-	4,103,933	-	-
Bank stock taxes					675,657	-	675,657	-	-
Recordation and wills					1,265,779	-	1,265,779	-	-
Tobacco					5,102,091	-	5,102,091	-	-
Hotel and motel room tax					3,178,730	-	3,178,730	-	-
Restaurant food tax					22,873,051	-	22,873,051	-	-
Tourism zone tax					11,032	-	11,032	-	-
Amusement					665,301	-	665,301	-	-
Total City Taxes					342,537,272	-	342,537,272	-	-
Grants and contributions not restricted to specific programs					42,216,776	-	42,216,776	141,786,034	-
Payment from the City					-	-	-	99,150,620	-
Investment earnings					2,293,272	153,241	2,446,513	17,347	163,442
Miscellaneous					9,358,360	717,187	10,075,547	-	1,952,320
Transfers					9,391,000	(9,391,000)	-	-	-
Total general revenues and transfers					405,796,680	(8,520,572)	397,276,108	240,954,001	2,115,762
Change in net position					11,217,027	15,759,245	26,976,272	(1,881,253)	333,167
Net position beginning of year - Restated (Note 1)					174,600,007	282,955,068	457,555,075	74,420,298	192,678,829
Net position end of year	\$				185,817,034	298,714,313	484,531,347	72,539,045	193,011,996

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**

Balance Sheet  
Governmental Funds  
June 30, 2014

	<b>General fund</b>	<b>Debt service fund</b>	<b>Bond fund</b>	<b>Nonmajor governmental funds</b>	<b>Total governmental funds</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 79,713,797	379,558	-	35,958,932	116,052,287
Restricted cash	-	32,978	49,484,213	1,734,174	51,251,365
Accounts receivable, net	17,304,189	-	-	2,679,006	19,983,195
Receivable from component unit	10,156,140	-	-	-	10,156,140
Receivable from other funds	1,238,173	-	-	1,729,857	2,968,030
Receivables from other governments	16,799,977	-	-	5,377,344	22,177,321
Inventory, at cost	1,214,146	-	-	-	1,214,146
Restricted assets:					
Permanently restricted cash	-	1,526,641	-	-	1,526,641
Total assets	<u>\$ 126,426,422</u>	<u>1,939,177</u>	<u>49,484,213</u>	<u>47,479,313</u>	<u>225,329,125</u>
<b>Liabilities</b>					
Accounts payable	\$ 11,848,110	309,058	2,369,901	3,334,384	17,861,453
Accrued liabilities	390,846	70,500	1,318,129	345,552	2,125,027
Deposits	3,679,867	-	-	-	3,679,867
Unearned revenues	159,915	-	-	39,110	199,025
Payable to Newport News Public Schools	-	-	541,161	-	541,161
Due to Pension Fund	2,327,525	-	-	-	2,327,525
Due to OPEB Fund	873,075	-	-	-	873,075
Payable to other funds	-	-	-	2,968,030	2,968,030
Total liabilities	<u>19,279,338</u>	<u>379,558</u>	<u>4,229,191</u>	<u>6,687,076</u>	<u>30,575,163</u>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue-property taxes	9,127,407	-	-	-	9,127,407
Property taxes collected in advance	776,472	-	-	-	776,472
Unavailable revenue-stormwater fees	-	-	-	495,591	495,591
Total deferred inflows of resources	<u>9,903,879</u>	<u>-</u>	<u>-</u>	<u>495,591</u>	<u>10,399,470</u>
<b>Fund Balances</b>					
Nonspendable	11,370,286	-	-	-	11,370,286
Restricted	90,649	1,526,641	45,255,022	9,487,744	56,360,056
Committed	-	32,978	-	30,808,902	30,841,880
Assigned	38,415,687	-	-	-	38,415,687
Unassigned	47,366,583	-	-	-	47,366,583
Total fund balances	<u>97,243,205</u>	<u>1,559,619</u>	<u>45,255,022</u>	<u>40,296,646</u>	<u>184,354,492</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 126,426,422</u>	<u>1,939,177</u>	<u>49,484,213</u>	<u>47,479,313</u>	<u>225,329,125</u>

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**

Reconciliation of the Balance Sheet of Governmental Funds to the  
Statement of Net Position  
June 30, 2014

Fund balances – total governmental funds		\$	184,354,492
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:			
Governmental capital assets	\$	1,285,986,275	
Less accumulated depreciation		<u>(603,142,020)</u>	
			682,844,255
Other long-term assets are not available to pay for current period expenditures and, therefore, are unavailable in the funds.			
			9,622,998
Internal service funds are used by management to charge the costs of certain activities to individual funds.			
		23,655,723	
Adjustment to add back accrued vacation included below		278,620	
Adjustment to add back capital lease included below		<u>373,000</u>	
			24,307,343
Deferred charge on refunding are reported as deferred outflows of resources in the government-wide financial statements but are not reported in the governmental fund statements			
			14,635,199
Unmatured interest payable reported in governmental activities will not be paid with current financial resources and, therefore, are not reported in the funds.			
			(4,924,635)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:			
General obligation bonds, net		(415,933,346)	
Literary fund bonds		(5,458,122)	
Capital lease payable		(570,701)	
Land lease payable		(960,934)	
Land purchase payable		(141,667)	
Landfill liability		(4,640,000)	
Accrued vacation		(19,648,299)	
Workers' compensation and other claims		(17,062,446)	
Net pension obligations		(226,353,000)	
Net OPEB Obligations		(29,922,851)	
Incurred but not reported claims		<u>(4,331,252)</u>	
			<u>(725,022,618)</u>
Net position of governmental activities	\$		<u><u>185,817,034</u></u>

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Governmental Funds  
Year ended June 30, 2014

	<b>General fund</b>	<b>Debt service fund</b>	<b>Bond fund</b>	<b>Nonmajor governmental funds</b>	<b>Total governmental funds</b>
Revenues:					
General property taxes	\$ 245,530,478	-	-	-	245,530,478
Other local taxes	96,418,092	-	-	-	96,418,092
Licenses and permits	3,433,489	-	-	-	3,433,489
Fines and forfeitures	2,598,677	-	-	-	2,598,677
Intergovernmental	42,216,776	13,834,357	-	34,554,350	90,605,483
Charges for services	18,573,725	-	-	45,847,295	64,421,020
Interest and rent	2,097,331	-	-	187,513	2,284,844
Recovered costs	6,051,336	-	-	-	6,051,336
Miscellaneous	3,544,393	43,357	-	8,546	3,596,296
Total revenues	<u>420,464,297</u>	<u>13,877,714</u>	<u>-</u>	<u>80,597,704</u>	<u>514,939,715</u>
Expenditures:					
Current operating:					
General government	77,815,161	-	-	114,782	77,929,943
Judicial administration	6,128,864	-	-	-	6,128,864
Public safety	103,104,038	-	-	4,000,234	107,104,272
Public works	10,868,346	-	-	48,642,691	59,511,037
Health and welfare	32,881,404	-	-	6,231,397	39,112,801
Education	115,276,090	-	1,513,738	1,100,000	117,889,828
Parks, recreation and culture	26,590,683	-	-	46,570	26,637,253
Community development	5,703,496	-	-	3,107,423	8,810,919
Debt service:					
Principal	-	38,295,516	-	-	38,295,516
Interest and other charges	-	21,447,359	242,382	-	21,689,741
Capital outlay	-	-	29,207,931	16,669,775	45,877,706
Total expenditures	<u>378,368,082</u>	<u>59,742,875</u>	<u>30,964,051</u>	<u>79,912,872</u>	<u>548,987,880</u>
Excess (deficiency) of revenues over (under) expenditures	<u>42,096,215</u>	<u>(45,865,161)</u>	<u>(30,964,051)</u>	<u>684,832</u>	<u>(34,048,165)</u>
Other financing sources (uses):					
Transfers in	10,141,000	45,957,608	-	13,707,092	69,805,700
Transfers out	(48,713,740)	-	-	(11,700,960)	(60,414,700)
Payments to refunded bonds escrow agent	-	-	(64,866,731)	-	(64,866,731)
Premium on bonds	-	-	16,360,802	-	16,360,802
Refunded bonds issuance of debt	-	-	56,115,000	-	56,115,000
Bond and note issuance of debt	-	-	45,000,000	-	45,000,000
Total other financing sources (uses), net	<u>(38,572,740)</u>	<u>45,957,608</u>	<u>52,609,071</u>	<u>2,006,132</u>	<u>62,000,071</u>
Net changes in fund balances	3,523,475	92,447	21,645,020	2,690,964	27,951,906
Fund balances at June 30, 2013	93,719,730	1,467,172	23,610,002	37,605,682	156,402,586
Fund balances at June 30, 2014	<u>\$ 97,243,205</u>	<u>1,559,619</u>	<u>45,255,022</u>	<u>40,296,646</u>	<u>184,354,492</u>

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balance to the Statement of Activities  
Year ended June 30, 2014

Net change in fund balances – total governmental funds \$ 27,951,906

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. The Statement of Activities also includes expenses that relate to assets acquired that do not meet the capitalization threshold of the City:

Capital outlay expenditures	\$ 45,877,706	
Plus: Capital expenditures not included in capital outlays, net of disposals	(2,836,298)	
Less: Non-capitalized asset	(12,226,164)	
Depreciation expense	<u>(28,280,263)</u>	
		2,534,981

Newport News Public Schools, a component unit of the City, allows the City to record its construction in progress and certain capital assets on the City's financial statements for any projects using bond funds as a funding source. The City also records depreciation expense on these assets. These assets will revert back to the Schools when the debt is paid in full. These assets are not reported in the governmental funds.

3,346,931

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. Unavailable revenues increased by this amount in the current year.

588,702

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:

Principal repayments	96,080,750	
Debt issued (and related costs)	(101,115,000)	
Premium on issuance of long-term debt	(11,009,256)	
Amortization of refunding losses	<u>3,370,987</u>	
		(12,672,519)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These activities consist of changes in:

Accrued interest	1,081,810	
Capital leases payable	(570,701)	
Land purchase payable	458,334	
Landfill liability	250,000	
Accrued vacation	(181,564)	
Net pension obligation	(9,232,000)	
Net OPEB obligation	(1,590,440)	
Workers' compensation and other claims	(1,419,600)	
Incurred but not reported liabilities	<u>(1,026,557)</u>	
		(12,230,718)

Some capital additions were financed through capital leases in a prior year. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Position, the lease obligation is reported as a liability.

Payments and write-offs on capital leases made in the current year	206,386
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Internal service funds are used by management to charge the costs of certain services to individual funds. The net income of the internal service fund is reported with governmental activities (excludes change in compensated absences).

1,491,358

Change in net position of governmental activities	<u><u>\$ 11,217,027</u></u>
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See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**

Statement of Net Position

Proprietary Funds

June 30, 2014

<b>Assets</b>	<b>Major Fund - Public Utility</b>	<b>Internal Service Fund</b>
Current assets:		
Cash and cash equivalents	\$ 38,940,491	3,738,713
Restricted cash	28,007,541	—
Accounts receivable, net	12,920,856	1,638
Inventory	3,433,092	622,380
Total current assets	83,301,980	4,362,731
Noncurrent assets:		
Land held for resale	7,102,444	—
Wetlands credits	6,662,667	—
Capital assets:		
Nondepreciable capital assets:		
Land	7,302,367	20,257
Construction in progress	18,835,117	15,653
Depreciable capital assets:		
Buildings	152,185,865	3,469,775
Improvements	—	212,993
Water system	408,192,327	—
Machinery and equipment	34,881,764	52,368,995
Total capital assets	621,397,440	56,087,673
Less accumulated depreciation	(239,592,717)	(35,733,165)
Capital assets, net	381,804,723	20,354,508
Other assets	3,200,496	—
Total noncurrent assets	398,770,330	20,354,508
Total assets	\$ 482,072,310	24,717,239
<b>Liabilities</b>		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 2,328,032	389,903
Accrued liabilities	3,606,227	373,213
Unearned revenues	32,600,925	—
General obligation bonds payable, net	13,475,739	—
Revenue bonds payable, net	942,158	—
Total current liabilities	52,953,081	763,116
Noncurrent liabilities:		
Deposits	3,359,012	—
Lease payable	—	298,400
General obligation bonds payable, net	91,661,107	—
Revenue bonds payable, net	35,384,797	—
Total noncurrent liabilities	130,404,916	298,400
Total liabilities	183,357,997	1,061,516
<b>Net Position</b>		
Net position:		
Net investment in capital assets	243,541,418	20,354,508
Restricted for bond construction	28,007,541	—
Unrestricted	27,165,354	3,301,215
Total net position	298,714,313	23,655,723

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**  
Statement of Revenues, Expenses and Changes in Net Position  
Proprietary Funds  
Year ended June 30, 2014

	<u>Major Fund - Public Utility</u>	<u>Internal Service Fund</u>
Operating revenues:		
Water sales	\$ 59,945,989	-
Charges for services	22,773,477	12,465,761
Miscellaneous	2,861,368	64,445
Total operating revenues	<u>85,580,834</u>	<u>12,530,206</u>
Operating expenses:		
Personal services	23,610,208	2,980,773
Contractual services	8,813,182	80,154
Internal services	1,400,937	97,011
Materials and supplies	6,092,651	5,766,179
Depreciation	13,871,882	3,940,268
Other	3,949,201	-
Total operating expenses	<u>57,738,061</u>	<u>12,864,385</u>
Operating income (loss)	<u>27,842,773</u>	<u>(334,179)</u>
Nonoperating revenues (expenses):		
Bond issuance cost	(47,318)	-
Interest revenue	153,241	8,428
Gain (loss) on disposal of capital assets	(32,922)	314,539
Amortization on bond premium	717,187	-
Loss on long-term debt	(418,116)	-
Interest expense	(5,392,593)	-
Total nonoperating revenues (expenses), net	<u>(5,020,521)</u>	<u>322,967</u>
Income (loss) before capital contributions and transfers out	<u>22,822,252</u>	<u>(11,212)</u>
Capital contributions for capital assets	2,327,993	1,103,230
Transfers out	(9,391,000)	-
Change in net position	15,759,245	1,092,018
Net position at June 30, 2013 - Restated	<u>282,955,068</u>	<u>22,563,705</u>
Net position at June 30, 2014	<u>\$ 298,714,313</u>	<u>23,655,723</u>

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**

Statement of Cash Flows

Proprietary Funds

Year ended June 30, 2014

	<u>Major Fund - Public Utility</u>	<u>Internal Service Fund</u>
Cash flows from operating activities:		
Receipts from customers	\$ 86,980,310	12,530,206
Payments to suppliers	(15,976,617)	(5,305,504)
Payments to employees	(24,060,616)	(2,980,773)
Other payments	(3,949,201)	—
Net cash provided by operating activities	<u>42,993,876</u>	<u>4,243,929</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(13,696,827)	(4,278,501)
Contributed capital	2,327,993	1,103,230
Proceeds from sale of capital assets	140,558	527,827
Premium on bonds issued	3,601,059	—
Bond issuance cost	(47,318)	—
Repayment and retirement of long-term debt, net	(12,707,917)	—
Refunding payment in excess of par	(990,000)	—
Interest paid	(8,008,135)	—
Net cash used in capital and related financing activities	<u>(29,380,587)</u>	<u>(2,647,444)</u>
Cash flows used in noncapital financing activities -		
Transfer to other funds	<u>(9,391,000)</u>	<u>—</u>
Cash flows provided by investing activities -		
Interest received	<u>153,241</u>	<u>8,428</u>
Increase in cash and restricted cash	4,375,530	1,604,913
Cash and restricted cash at beginning of year	<u>62,572,502</u>	<u>2,133,800</u>
Cash and restricted cash at end of year	\$ <u><u>66,948,032</u></u>	<u><u>3,738,713</u></u>
Reported as:		
Cash and cash equivalents	\$ 38,940,491	3,738,713
Restricted cash	<u>28,007,541</u>	<u>—</u>
Total cash & cash equivalents	\$ <u><u>66,948,032</u></u>	<u><u>3,738,713</u></u>
Cash flows from operating activities:		
Operating income (loss)	\$ 27,842,773	(334,179)
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation	13,871,882	3,940,268
Changes in assets and liabilities:		
Accounts receivable	2,314,111	12,115
Inventories	32,119	19,878
Accounts payable	65,581	605,847
Unearned revenues	(914,634)	—
Deposits	(217,956)	—
Total adjustments	<u>15,151,103</u>	<u>4,578,108</u>
Net cash provided by operating activities	\$ <u><u>42,993,876</u></u>	<u><u>4,243,929</u></u>

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2014

<b>Assets</b>	<b>Pension &amp; Other Postemployment Benefits</b>	<b>Agency Funds</b>
Cash and cash equivalents	\$ 7,510,602	5,239,889
Cash and cash equivalents with trustee	61,629,811	—
Investments:		
Corporate and government bonds	130,684,689	—
Domestic stocks	395,106,853	—
Domestic mutual funds	7,935,272	—
International stocks	107,982,227	—
International mutual funds	64,845,069	—
Real estate and timber	101,622,523	—
Accounts receivable	—	3,931,748
Due from City	3,200,600	—
Due from other components	231,591	—
Sales receivable	2,916,584	—
Inventory	—	3,151
<b>Total assets</b>	<b>\$ 883,665,821</b>	<b>9,174,788</b>
<b>Liabilities</b>		
Accounts payable	\$ 1,314,068	1,182,396
Accrued vacation	44,771	—
Due to other governments	—	4,753,753
Due to other agencies	—	3,238,639
Purchases payable	1,920,567	—
<b>Total liabilities</b>	<b>3,279,406</b>	<b>9,174,788</b>
<b>Net Position</b>		
Assets held in trust:		
Postemployment healthcare benefits	28,105,614	
Employees' retirement	852,280,801	
<b>Total net position</b>	<b>\$ 880,386,415</b>	

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**

## Statement of Changes in Fiduciary Net Position

## Fiduciary Funds - Employees' Retirement Trusts for Pension &amp; Other Postemployment Benefits

Year ended June 30, 2014

	<b>Pension &amp; Other Postemployment Benefits</b>
Additions:	
Employer Contributions:	
City General Fund	\$ 29,401,635
Waterworks Fund	3,491,413
School Operating Fund	6,711,778
Employee Contributions:	
City General Fund	5,256,572
Waterworks Fund	653,230
School Operating Fund	293,637
Other Contributions:	
Income from Leave Exchange	103,265
Employee Buy-back	251,907
Total contributions	<u>46,163,437</u>
Investment income:	
Net depreciation - bonds	(1,579,658)
Net appreciation - stocks	102,264,371
Interest	4,305,604
Dividends	10,089,337
Real estate operating loss, net	6,025,757
Commission recapture	95,256
Other investment income	911
Total investment gain	<u>121,201,578</u>
Less investment expenses:	
Other investment expenses	<u>(4,751,824)</u>
Net investment gain	<u>116,449,754</u>
Total additions	<u>162,613,191</u>
Deductions:	
Benefits paid to participants	75,929,118
Refunds of member contributions	23,335
Administrative expenses	909,133
Total deductions	<u>76,861,586</u>
Change in net position	85,751,605
Net position held in trust for pension benefits at June 30, 2013	<u>794,634,810</u>
Net position held in trust for pension benefits at June 30, 2014	<u><u>\$ 880,386,415</u></u>

See accompanying notes to basic financial statements.

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## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2014

#### (1) Summary of Significant Accounting Policies

##### *(a) The Reporting Entity*

The City of Newport News, Virginia (City or Primary Government) was established by act of the Virginia General Assembly in 1958. It is a political subdivision of the Commonwealth of Virginia operating under the council-manager form of government. City Council consists of a mayor and six other council members. The City is not part of a county and has taxing powers subject to Commonwealth wide restrictions and tax limits. The City provides a full range of municipal services including police and fire, sanitation, health and social services, public improvements, planning and zoning, general administrative services, education, sewer, and a water system administered by the Newport News Department of Public Utilities.

The City's reporting entity consists of the Primary Government as well as its component units, which are legally separate organizations for which the elected officials of the Primary Government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either (a) the ability to impose will by the Primary Government, or (b) the possibility that the component unit will provide a financial benefit or impose a financial burden on the Primary Government.

The accompanying financial statements present the City (the Primary Government) and its component units. The financial data of the component units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

**Blended component units.** The Public Utility Fund serves all the citizens of the City and is governed by a board comprised of the City's elected council. Both the rates for user charges and bond issuance authorizations are approved by the City Council and the legal liability for the general obligation portion of the debt resides with the City. This fund is reported as an enterprise fund.

**Discretely presented component units.** Three of the City's component units are discretely presented. Discretely presented component units are entities that are legally separate from the City, but for which the City is financially accountable, or whose relationships with the City are such that exclusion would cause the City's financial statements to be incomplete. These component units are segregated from the Primary Government to emphasize that they are legally separate from the City. All of the component units have a fiscal year end of June 30.

## **CITY OF NEWPORT NEWS, VIRGINIA**

### **Notes to Basic Financial Statements**

**June 30, 2014**

#### **Major discretely presented unit**

- The Newport News Public Schools (Schools or School Board) are responsible for elementary and secondary education within the City. The School Board is elected by the voters of Newport News and operates the four early childhood centers, twenty four elementary, seven middle, five high schools and one middle-high school combination in the City. The School Board may not issue debt. City Council makes an annual appropriation to the School Board, but is prohibited from exercising any control over specific expenditures of School Board operating funds. Transfers within the School Operating Fund are under the control of the School Board at the categorical level. Expenditures are controlled in the School Cafeteria and School Grants Funds through use of budgets approved by the School Board. Separate audited financial statements are available from the Newport News Public Schools at 12465 Warwick Boulevard, Newport News, Virginia 23606.

#### **Nonmajor discretely presented units**

- The Economic and Industrial Development Authorities (E/IDA or the Authorities) are two legally separate entities included in the City's financial statements due to financial/legal inter-dependency with the City. The E/IDA acquires, maintains and develops land for sale or lease, promotes both economic and industrial development and growth in the City, and includes the Parking Authority. The City Council approves the E/IDA's budget. Separate audited financial statements are available from E/IDA, at Department of Planning and Development, 2400 Washington Avenue, Newport News, Virginia 23607.
- The Peninsula Airport Commission (PAC) is a legally separate entity included in the City's financial statements due to financial/legal inter-dependency with the City. The PAC operates the Newport News/Williamsburg International Airport. The City appoints four of PAC's six commission members. Separate audited financial statements are available from PAC at 900 Bland Boulevard, Newport News, Virginia 23602.

#### **(b) Government-wide and Fund Financial Statements**

The government-wide financial statements report information on all of the nonfiduciary activities of the Primary Government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. Likewise, the Primary Government is reported separately from certain legally separate component units for which the Primary Government is financially accountable.

## **CITY OF NEWPORT NEWS, VIRGINIA**

### **Notes to Basic Financial Statements**

**June 30, 2014**

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Included in direct expenses are certain indirect costs that have been allocated to the various programs. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and the fiduciary funds, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### **(c) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Real estate and property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are susceptible to accrual (i.e., both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period, usually 45 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this rule include: (1) landfill liability, accrued vacation, other postemployment benefits, workers compensation and other claims, and incurred but not reported medical claims (IBNR), which are recognized when paid and (2) principal and interest payments on general long term debt, both of which are recognized when due.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other,

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2014

monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the accrual criteria are met.

In the fund financial statements, real and personal property taxes are recorded as revenues and receivables when levied and billed, net of allowances for uncollectible amounts. Property tax receivables not collected within 45 days after year-end are reflected as unavailable revenues. Sales and utility taxes, which are collected by the Commonwealth of Virginia or utility companies by year-end and subsequently remitted to the City, are recognized as revenues and receivables upon collection by the Commonwealth of Virginia or utility company, which is generally in the month preceding receipt by the City.

Licenses and permits, fines and forfeitures, charges for services and miscellaneous revenues (except interest on temporary investments) are recorded as revenues when received in cash because they are generally not measurable until actually received.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the accumulation of resources for the payment of principal, interest, and related costs on long-term debt of governmental funds.

The *Bond Fund* is a capital projects fund used to account for the proceeds of all general obligation bond issues except those of the Proprietary Funds. Proceeds are used for various capital outlays in accordance with the respective bond ordinances.

The City reports the following major proprietary fund:

The *Public Utility Fund* accounts for the water utility that provides water service to the City and various surrounding localities. Operation of the proprietary fund is designed to be self-supporting through user charges. This fund services its own debt and construction projects and records the acquisition of its depreciable assets and land.

Additionally, the City reports the following fund types:

The *Internal Service Fund* accounts for the financing of vehicle and equipment services provided to other departments or agencies of the City on a cost reimbursement basis.

## **CITY OF NEWPORT NEWS, VIRGINIA**

### **Notes to Basic Financial Statements**

**June 30, 2014**

*Pension Trust Employees' Retirement Fund* accounts for all contributions and investments accumulated for employees' retirement. Also, the fund pays for all related expenses incurred as well as retiree benefits.

*Other Postemployment Benefits (OPEB) Fund* accounts for all contributions and investments accumulated for employees' medical benefits and life insurance coverage at retirement. The fund pays for all related expenses incurred as well as health, dental and life insurance benefits.

*The Agency Funds* account for assets held by the City in a trustee capacity or as an agent or custodian for the individuals, private organizations, and other funds. Agency funds are custodial in nature so do not involve any measurement of results of operations.

#### **Nonmajor governmental funds:**

*Special Revenue Funds* account for revenues and expenditures related to programs that are restricted in nature for specific purposes. Examples include the Stormwater Fund, the Solid Waste Fund, activities of the Community Development Block Grant Program, individual grant programs, community services programs for mental health and substance abuse, and economic aid to certain qualifying citizens under several different programs.

*Capital Projects Funds*, excluding the Bond Fund, account for the federal entitlements used for capital expenditures as well as various federal and state grants for capital outlay in accordance with the respective grant agreements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's public utility function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for sales and services. The Public Utilities' Enterprise Fund also recognizes certain rental fees as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

## **CITY OF NEWPORT NEWS, VIRGINIA**

### **Notes to Basic Financial Statements**

**June 30, 2014**

In all funds, when both restricted and unrestricted resources are available for a particular use and have not been earmarked for other purposes, it is the City's policy to use restricted resources first for any allowable costs. After restricted resources have been depleted, unrestricted resources are used as they are needed unless the City determines otherwise.

Since the governmental fund's financial statements are presented on a different measurement focus and basis of accounting than the governmental-wide financial statements, a summary reconciliation of the difference between total fund balances as reflected on the Governmental Funds' Balance Sheet and total net position for governmental activities as shown on the government-wide Statement of Net Position is presented in a schedule accompanying the Governmental Funds' Balance Sheet. In addition, a summary reconciliation of the differences between net change in total fund balances as reflected on the Governmental Funds' Statement of Revenues, Expenditures, and Changes Fund Balances and the change in net position for governmental activities as shown on the government-wide Statement of Activities, is presented in a schedule accompanying Governmental Funds' Statement of Revenues, Expenditures, and Changes in Fund Balances.

#### ***(d) Cash and Cash Equivalents and Investments***

The City utilizes the pooled cash investment method, except for the Peninsula Airport Commission. Income from the investment of pooled cash is allocated to the various funds, based on the percentage of cash and cash equivalents of each fund to the total pooled cash and cash equivalents. In addition, the City has restricted deposits held by trustees for future retirements of bonds at the appropriate call date, retirements of certain certificates of participation at maturity and construction projects.

Investments are stated at fair value, except for cash equivalents where cost approximates fair value. Retirement plan investments are reported at fair value. Plan short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is based on independent appraisals. All other investments are valued based on amounts provided by the investment advisor or fund administrator.

For purposes of the Statement of Cash Flows, all highly liquid debt instruments with original maturities of three months or less from the date of purchase are considered to be cash equivalents.

#### ***(e) Receivables and Payables***

Activities between funds that are representative of lending/borrowing arrangements

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2014

outstanding at the end of the fiscal year are referred to as either “due to/from other funds” or “advances to/from other funds” in the fund statements. Any residual balances outstanding between governmental activities and business-type activities would be reported in the government-wide financial statements as “internal balances.”

In the fund statements, long-term interfund advances and advances to component units are recorded as a receivable with a corresponding nonspendable fund balance by the advancing fund.

Provisions for uncollectible water, sewer, stormwater and emergency medical bills are based upon an historical analysis of uncollected accounts and are applied as a percentage of delinquent/terminated accounts in the year-end accounts receivable balance. Provision for uncollectible property taxes is based upon a historical percentage of accounts written off applied to the total levies of all years carried in taxes receivable.

The two major sources of property taxes are described below as reported in the fund financial statements:

*Real Estate* – Each year as of July 1, the City levies real estate taxes on all real estate within its boundaries, except that exempted by statute. Real estate taxes are levied on the estimated market value of the property and become a lien on real property the first day of the levy year. The City follows the practice of reassessing all property annually. Real estate taxes are collected in semi-annual payments due December 5 and June 5. During the fiscal year, the current year real estate taxes reported as revenue are the levies on assessed valuation on July 1, less an allowance for uncollectible amounts and taxes not collected within 45 days after year-end. The tax rate for 2014 was \$1.22 per \$100 of assessed value.

*Personal Property* – The City levies personal property taxes on motor vehicles and tangible personal business property. These levies are made each year as of January 1 with payment due the following December 5 and June 5. The current year personal property taxes reported as revenue are the levies on assessed valuation at January 1, less an allowance for uncollectible amounts and taxes not collected within 45 days after year-end. The 2014 tax rates per \$100 of assessed value were:

Mobile homes	\$1.22
Trawlers	\$0.90
Pleasure boats	\$1.00
Machinery & Tools	\$3.75
Motor Vehicles	\$4.50

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2014

Unearned revenues represent amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Unearned revenues consist of amounts prepaid and not yet earned, such as prepaid sewer assessments and prepayments for instructional classes.

Unavailable revenues in the governmental fund types consist of revenues that are measurable but not available for use during the current period. Property taxes receivable at June 30 but not collected within 45 days after that date are reported as unavailable revenues in the financial statements.

#### **(f) Allowances for Uncollectibles**

The City calculates allowances for uncollectibles using historical collection data, specific account analysis and management's judgment. The allowance at June 30, 2014 is composed of the following:

##### General Fund – Allowance for Uncollectibles

###### Taxes receivable:

Real Estate	\$	2,402,621
Personal Property		<u>2,398,270</u>
Total Taxes	\$	<u>4,800,891</u>

##### Non-Major Governmental –

Special Revenue Funds – accounts receivable	\$	1,520,392
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Public Utility Fund - accounts receivable	\$	1,372,281
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#### **(g) Inventories**

Inventories, which consist of materials and supplies held for future consumption, are stated at cost using the first-in, first-out and average cost methods. Inventory is accounted for under the consumption method. The costs are recorded as expenditures at the time of purchase.

#### **(h) Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental's or business-type's activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an initial useful life of more than 1 year. Assets are recorded at historical cost or estimated historical cost if purchased or constructed.

## **CITY OF NEWPORT NEWS, VIRGINIA**

### **Notes to Basic Financial Statements**

**June 30, 2014**

Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Interest of \$51,802 was capitalized during fiscal year 2014.

Under Virginia law, certain property maintained by the School Board is subject to a “tenancy-in-common” with the City if the City incurred a financial obligation for the property payable over more than one fiscal year. The School Board and the City have agreed that such property will be carried on the City’s financial statements until the outstanding debt is repaid. After repayment, the asset is transferred to the School Board. At June 30, 2014, the City holds capital assets related to school property with a net book value of approximately \$147,776,000.

Capital assets of the Primary Government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Buildings	40 - 60 years
Building improvements	25 - 30 years
Infrastructure (including water system)	15 - 100 years
Machinery and equipment	4 - 20 years

#### ***(i) Land Held for Resale***

Land held for resale by the E/IDA is stated at acquisition cost plus improvements and capitalized interest, if applicable, but not in excess of net realizable value. Capitalized costs of projects are assigned to individual components of the projects based on specific identification. If specific identification is not practicable, capitalized interest costs are allocated to each parcel benefited, based on relative fair value before construction. As land is sold, all costs associated with that land are charged to cost of land sold.

#### ***(j) Compensated Absences***

City employees are granted vacation and sick pay in varying amounts as services are provided. They may accumulate, subject to certain limitations, unused vacation leave, and upon retirement, termination or death, may be compensated for their unused vacation at their then current rates of pay. The costs of accumulated vacation are

## **CITY OF NEWPORT NEWS, VIRGINIA**

### **Notes to Basic Financial Statements**

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accrued as a liability in the accrued based financial statements as the benefits are earned by the employees if attributable to services already rendered and compensation through time off or some other means is probable. Sick leave expense is recorded by the City when the employee is paid. Upon termination, City employees are not paid for accumulated sick leave. For members of the Newport News Employees' Retirement Fund, the unused sick leave is added to the employee's years of credited service for the purpose of computing pension benefits. These liabilities are accounted for in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured as a result of employee resignations and retirements. For members of Virginia Retirement System, the unused sick leave is forfeited at termination.

School Board employees are granted vacation and sick pay in varying amounts as services are provided. They may accumulate, subject to certain limitations, unused vacation leave, and upon retirement, termination or death, may be compensated for certain amounts at their then current rates of pay. Upon termination, School Board employees are not paid for accumulated sick leave. Upon retirement, sick leave may be taken in cash at \$30 per day depending upon employment status (maximum payment of \$5,000) or may be used for additional service credit towards their retiree health insurance subsidy. After July 2, 2011, all future retirees will receive a retiree health insurance subsidy based on years of service rather than sick leave.

#### ***(k) Long-term Obligations***

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2014

#### **(I) Fund Equity/Net Position**

The net position in government-wide and proprietary fund 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, grantors, contributors, laws and regulations of other governments or imposed by law through State statute. In the fiduciary fund financial statements, net position of the Pension & Other Postemployment Benefits Trust Funds are held in trust for the payment of retiree pension, health and life insurance benefits.

Under accounting principles generally accepted in the United States of America (GAAP), fund balances are required to be reported according to the following classifications:

*Nonspendable fund balance* – Consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This classification includes inventories, prepaid amounts, assets held for resale, and long-term receivables.

*Restricted fund balance* – Consists of amounts that are restricted to specific purposes and externally imposed by creditors or imposed by law.

*Committed fund balance* – Consists of amounts that can only be used for specific purposes as determined by the City's highest level of decision-making authority, City Council, and is imposed by formal action (ordinance). The City's policy is that formal council action is required to establish or rescind a committed fund balance.

*Assigned fund balance* – Consists of amounts which the City intends to use for specific purposes, but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by City Council's delegation of this authority to the City Manager in the annual operating budget ordinance.

*Unassigned fund balance* – This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. Under GAAP, positive unassigned fund balances are only reported in the General Fund. However, in governmental funds other than the General Fund, expenditures incurred for a specific purpose might exceed the amount restricted, committed or assigned to that purpose, and a negative residual amount for that purpose may result. If that occurs, any negative residual is offset to the extent of any other assigned amounts

**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

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in that fund, and any remaining negative residual amount is classified as a negative unassigned fund balance in the applicable governmental fund.

City Council has adopted a minimum fund balance policy which states that the General Fund's unassigned fund balance shall not be less than 7.5% of the actual General Fund revenues. For FY 2014, the General Fund's unassigned fund balance is 11% of revenues, exceeding the policy threshold of 7.5%.

The City does not have a policy for the use of its unrestricted fund balance amounts, but in practice committed amounts are reduced first, followed by assigned amounts, then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2014

Details of the fund balance classifications of the Governmental funds at June 30, 2014 are as follows:

<u>Function/Purpose</u>	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Unassigned</u>
General fund:					
Inventories	\$ 1,214,146	\$ -	\$ -	\$ -	\$ -
Long-term note receivable	10,156,140	-	-	-	-
General government:					
Administration	-	-	-	2,354,544	-
Self insured activities	-	-	-	17,861,436	-
Projects	-	-	-	9,543,700	-
Judicial administration	-	-	-	4,356	-
Public safety	-	-	-	6,563,660	-
Public works	-	90,649	-	1,360,155	-
Health and welfare	-	-	-	29,622	-
Park, recreation, and cultural	-	-	-	661,147	-
Community development	-	-	-	13,377	-
Imprest funds	-	-	-	23,690	-
Unassigned	-	-	-	-	47,366,583
Total General Fund	\$ 11,370,286	\$ 90,649	\$ -	\$ 38,415,687	\$ 47,366,583
Other Funds:					
Debt Service:					
Future Debt Service	\$ -	\$ 1,526,641	\$ 32,978	\$ -	\$ -
Bond:					
Buildings	-	1,903,347	\$ -	-	-
Community development	-	870,010	-	-	-
Education	-	22,198,154	-	-	-
Equipment	-	8,238,139	-	-	-
Park, recreation, and cultural	-	1,308,249	-	-	-
Streets and bridges	-	3,631,290	-	-	-
Sanitary Sewer	-	2,778,729	-	-	-
Stormwater	-	4,327,104	-	-	-
Nonmajor Governmental:					
Economic Development	-	-	1,382,496	-	-
Law Library	-	25	183,958	-	-
Public Works	-	4,675,841	-	-	-
Criminal Justice Academy	-	-	316,944	-	-
Federal and State Grants	-	4,811,878	336,599	-	-
Community development	-	-	145,030	-	-
Equipment	-	-	1,664,748	-	-
Park, recreation, and cultural	-	-	858,000	-	-
Buildings	-	-	128,898	-	-
Sanitary Sewer	-	-	80,308	-	-
Streets and bridges	-	-	2,351,641	-	-
Future capital projects	-	-	23,360,280	-	-
Total Other Funds	\$ -	\$ 56,269,407	\$ 30,841,880	\$ -	\$ -
Total fund balance	\$ 11,370,286	\$ 56,360,056	\$ 30,841,880	\$ 38,415,687	\$ 47,366,583

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2014

Net position is comprised of three categories: (1) net investment in capital assets; (2) restricted; and (3) unrestricted. The first component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted reflects the assets whose use is restricted by outside parties or legal constraints. The unrestricted component of net position consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Restricted net position on the government-wide Statement of Net Position is composed of the following funds:

	<b>Governmental</b>	<b>Business-type</b>
	<b>Activities</b>	<b>Activities</b>
General activities:		
Public works	\$ 90,649	-
Other activities:		
Debt Service	1,526,641	-
Law Library	25	-
Grants	2,632,344	-
Capital Projects	2,179,534	28,007,541
Stormwater, Solid waste, Wastewater	4,675,841	-
Total restricted net position	<u>\$ 11,105,034</u>	<u>28,007,541</u>

#### ***(m) Encumbrances***

The City employs encumbrance accounting under which obligations in the form of purchase orders, contracts and other commitments for the expenditure of funds are reported as committed or assigned fund balance, since they do not constitute expenditures or liabilities. Appropriations with outstanding commitments or encumbrances are carried into the following year. According to the City Code, unexpended, unencumbered appropriations lapse at the end of the year.

#### ***(n) Deferred Outflows and Inflows of Resources***

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The City's deferred outflows of resources consist of the amounts by which the principal and premium of a refunding bond exceed the net carrying amount of the refunded

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2014

debt. The deferred outflow is being amortized over the remaining life of the refunded debt.

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has several items that qualify under this classification, which arise under a modified accrual basis of accounting. Accordingly, unavailable revenue and property taxes collected in advance are reported in the governmental funds' balance sheet. These amounts are deferred and recognized as an inflow of resources in the period until the amounts become available.

#### **(o) Governmental Accounting Standards Board ("GASB") Pronouncements**

Effective July 1, 2013, the City adopted the provisions of Governmental Accounting Standards Board GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (Statement No. 65). This Implementation required the City to recognize cost of issuance of bonds as an expense; therefore, the adoption of this statement resulted in an increase to the cost of issuance expense and a decrease to the unamortized bond issuance costs and unamortized underwriters discount fee for fiscal year ended June 30, 2013. The restatement of prior period net position for fiscal year ended June 30, 2013 decreased both the net position and unamortized costs (bond issuance costs) as shown below. As a result, net position as of July 1, 2013 has been adjusted accordingly:

	Governmental Activities	Business-type Activities	Total Activities	Other Component Units
Net Position, beginning of the year as previously reported	\$ 175,985,773	283,844,539	459,830,312	193,144,730
Implementation of GASB Statement No. 65	(1,385,766)	(889,471)	(2,275,237)	(465,901)
Balance, as restated, June 30, 2013	<u>174,600,007</u>	<u>282,955,068</u>	<u>457,555,075</u>	<u>192,678,829</u>

Additionally, this implementation of GASB 65 required the City to restate total long-term liabilities as previously reported at June 30, 2013. Debt refundings resulting in loss transactions are now reported as deferred outflows of resources on the Statement of Net Position. The restatement of prior period long-term liabilities for fiscal year ending June 30, 2013 increased long-term liabilities by the unamortized net loss on refunded bonds. As a result, long-term liabilities as of July 1, 2013 have been adjusted accordingly:

**CITY OF NEWPORT NEWS, VIRGINIA**  
Notes to Basic Financial Statements  
June 30, 2014

	Governmental Activities
Total long-term liabilities, beginning of the year as previously reported	\$ 684,608,758
Implementation of GASB Statement No. 65	<u>11,264,212</u>
Balance, as restated, June 30, 2013	<u><u>695,872,970</u></u>

Effective July 1, 2013, the Pension Fund adopted the provisions of Governmental Accounting Standards Board GASB Statement No. 67, *Financial Reporting for Pension Plans* (Statement No. 67). Statement No. 67 affects the financial statements for the Pension Plan and replaces Statement No. 25, *Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans*. This implementation required the Pension Fund only to present the projection of the Total Pension Liability from the valuation date to the measurement date and calculate the Net Pension Liability at the discount rate as well as discount rates 1% higher or lower than the discount rate to project the Plan's fiduciary net position.

**(2) Deposits and Investments**

***Deposits***

All cash of the City is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act (the Act), Section 2.2-4400 et. Seq. of the code of Virginia or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by the FDIC must pledge collateral of 50% of the excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of the FDIC limits and are considered insured. 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 and savings and loans.

To increase returns and minimize fees, the City follows the practice of pooling cash and investments of all funds held with the City Treasurer except for certain restricted funds requiring separate tracking or held by outside custodians. Cash and investments as of June 30, 2014 are classified in the accompanying financial statements, except for Pension and OPEB Funds' as follows:

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2014

	<u><b>Carrying amount</b></u>
Cash and deposits:	
Cash on hand	\$ 128,440
Deposits with banks	<u>42,019,268</u>
Total cash and deposits	42,147,708
Investments:	
Local Government Investment Pool (LGIP)	178,507,994
Deposits with banks – Money market accounts	1,578,975
Deposits with banks – Repurchase agreements	12,024,543
Commonwealth cash reserve	3,427,217
Virginia State Non-Arbitrage Pool (VA SNAP)	76,303,988
Common Stock – IDA	473
Debt Service – QZAB Sinking Fund	1,526,641
Schools' escrow funds	250,000
IDA escrow funds	<u>164,083</u>
Total deposits and investments	<u><b>\$ 315,931,622</b></u>

Cash and investments as of June 30, 2014 are classified in the accompanying financial statements, except for Pension and OPEB Funds' as follows:

	<u><b>June 30, 2014</b></u>
Statements of net position:	
Primary Government:	
Cash and cash equivalents	\$ 158,731,491
Restricted cash	80,785,547
Component Units:	
Cash and cash equivalents	55,665,931
Restricted cash	15,508,764
Fiduciary Funds:	
Cash and cash equivalents – Agency Funds	<u>5,239,889</u>
Total cash and investments	<u><b>\$ 315,931,622</b></u>

### ***Investment Policy***

In accordance with the Code of Virginia and other applicable law, including regulations, the City Investment Policy (Policy) permits investments in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivision thereof, obligations of the International Bank for Reconstructions and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a

## **CITY OF NEWPORT NEWS, VIRGINIA**

### **Notes to Basic Financial Statements**

**June 30, 2014**

2a-7 like pool), the State Non-Arbitrage Pool (SNAP) or similar fund, open-end mutual funds (provided the funds are registered under the Security Act of Virginia or the Federal Investment Act of 1940), and negotiable certifications of deposits and negotiable bank deposit notes of domestic banks and domestic offices of foreign banks with a rating of at least A-1/P-1.

The City Policy prohibits any other security not specifically authorized in the policy. No investment shall be purchased if the yield is less than that of the most recently auctioned issue of the United States Treasury of a similar term. At no time shall more than 35% of the portfolio be invested in commercial paper. No more than five percent of the portfolio shall be invested in the commercial paper of a single-entity. At no time shall an investment bear a maturity date greater than thirty-six (36) months from date of purchase. The City's Policy does not set a limit on the amount that may be invested in any single Federal Agency issuer or in any obligation of the United States. However, the Treasurer shall endeavor to maintain an appropriate diversification in the portfolio. The Treasurer shall avoid an excessive concentration in any type of investment and excessive number of investment transactions with any financial institution or broker/dealer.

**Interest Rate Risk:** As a means of limiting exposure to fair value losses arising from rising interest rates, investment maturity is managed to proceed or coincide with expectance need of funds. The City's Policy limits the investment of operating funds to investments with a stated maturity of no more than thirty-six (36) months from the date of purchase. Purchases of securities are ladderred with staggered maturity dates. Proceeds from the sale of bonds must be invested in compliance with the specific requirements of the bond covenants and may be invested in securities with longer maturities. As of June 30, 2014, the carrying value and weighted average maturity of the City's investments are listed below.

**Custodial Credit Risk – Deposits:** The City's deposits at June 30, 2014 were fully insured or collateralized by securities held in the name of the City by the City's custodial banks.

**Custodial Credit Risk – Investments:** The policy requires that all securities purchased for the City shall be held by the City Treasurer or by the City Treasurer's designated third party custodian. If held by a custodian, the securities must be in the City's or in the custodian's nominee name and identifiable on the custodian's books as belonging to the City and the custodian must be a third party, not a counter-party (buyer or seller).

**Credit Risk of Debt Securities of Primary Government:** The City's rated debt investments as of June 30, 2014, were rated by Standard & Poors and Moody. The ratings are presented below using the Standard & Poors rating scale. The School Board and E/IDA, component units, are pooled with the City and not separately identified.

**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2014

<u>Assets held by the Treasurer</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity (Years)</u>
Local Government Investment Pool	\$ 178,507,994	AAAm	N/A
Commonwealth Cash Reserve (AIM) – Underlying:			
U.S. Agencies	3,144,769	AA+	1.87
U.S. Agencies	100,637	AA	2.01
U.S. Agencies	99,961	AA-	1.98
U.S. Agencies	81,850	AAAm	-
SNAP	<u>76,303,988</u>	AAAm	-
Total Investments	<u>\$ 258,239,199</u>		

N/A – Not applicable

**Deposits of Pension and Other Postemployment Benefits Funds**

At year-end, the Pension and OPEB Funds' cash and investment balances were as follows:

	<u>Carrying amount</u>
Cash and deposits:	
Deposits with banks	\$ 1,058,504
Deposits with banks – Repurchase agreements	6,452,098
Pension trust fund money markets	<u>61,629,811</u>
Total cash and deposits	\$ 69,140,413
Investments:	
Common & international stocks	\$575,869,421
Corporate and government bonds	130,684,689
Pension fund real estate funds	<u>101,622,523</u>
Total deposits and investments	<u>\$877,317,046</u>

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# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2014

The Pension and OPEB funds' cash and investment as of June 30, 2014 are classified in the accompanying financial statements as follows:

	<u>June 30, 2014</u>
Cash and cash equivalents	\$ 7,510,602
Cash and cash equivalents with trustee	61,629,811
Investments	
Corporate and government bonds	130,684,689
Common stock	395,106,853
International stock	115,917,499
International emerging markets	64,845,069
Real estate	<u>101,622,523</u>
Total deposits and investments	<u>\$877,317,046</u>

### ***Investment Policy of the Pension Fund***

The Pension Fund can be invested in obligations of the U.S. or agencies thereof, obligations of the Commonwealth of Virginia, or political subdivisions thereof, corporate bonds rated BBB or higher by two of three nationally known security rating concerns, federally insured mortgages under Titles 203, 207, 220 and 221 of the National Housing Act, equities, certificates of deposit, guaranteed investment contracts and real estate. Pension Trust Fund investments are subject to restrictions placed by policies of the City Council and the Retirement Board.

### **Credit Risk of Pension Funds**

The credit risk profile for the Pension Funds' securities by investment type as of June 30, 2014 is as follows:

Investment Types	S & P's Ratings as of June 30, 2014					
	<u>TOTAL</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>Not Rated</u>
Asset-backed	\$ 7,922,071	4,044,405	70,068	-	-	3,807,598
Corporate Bonds	63,169,924	-	12,050,401	47,121,588	3,997,935	-
Foreign Currency	281,580	-	-	-	-	281,580
Mortgage-backed	32,142,056	12,020,858	-	-	-	20,121,198
Municipals	655,810	-	655,810	-	-	-
Mutual Funds	152,587,481	-	-	-	-	152,587,481
Real Estate Inv.	17,446,782	-	-	-	-	17,446,782
Short-term	61,348,361	-	-	-	-	61,348,361
U.S. Agencies	14,341,657	-	14,341,657	-	-	-
U.S. Treasury	12,453,173	-	-	-	-	12,453,173
Non-fixed Assets	483,636,000	-	-	-	-	483,636,000
Total	<u>\$ 845,984,895</u>	<u>16,065,263</u>	<u>27,117,936</u>	<u>47,121,588</u>	<u>3,997,935</u>	<u>751,682,173</u>

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2014

#### ***Concentration of Credit Risk – Pension Fund***

There were no investments in any one issuer that represented five percent (5%) or more of the total Pension Fund investments.

#### ***Custodial Risk – Pension and OPEB Funds***

The policy requires that all securities purchased for the Pension and OPEB Funds shall be held by the City Treasurer or by the designated third-party custodian. If held by a custodian, the securities must be in the City's or in the custodian's nominee name. The custodian holds investment securities in the Fund's name. Accordingly, the Fund is not exposed to custodial credit risk.

#### ***Foreign Currency Risk – Pension Fund***

The Pension Fund does not have a formal policy to limit foreign currency risk. Risk of loss arises from changes in currency exchange rates and the Pension Fund's exposure to foreign currency risk is as follows:

##### **2014 Foreign Currency Risk**

<b>Investment</b>	<b>Currency</b>	<b>Fair Value</b>
Cash equivalent	Euro currency	<u>\$ 8,506</u>

#### ***Interest Risk – Pension Fund***

The Pension Fund's investment policy does not address investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investment policy defines the investment objectives for both the passive and actively managed segments of the fixed income portfolio. The objective of the passive segment is to replicate the return of the Barclays Aggregate Bond Index thus providing broad diversification that would be impractical to achieve in an actively managed portfolio. The objective of the actively managed fixed income portfolio is to outperform the Barclays Aggregate Bond Index over a moving 3-5 year range, with the exception of long duration fixed income, which has an objective of outperforming the Barclays Capital Long Government/Credit Index over a moving 3-5 year range. The fair value of the Pension Fund's fixed income portfolio consisted of the following investment and maturities as of June 30, 2014:

<b>Investment Type</b>	<b>Fair Value</b>	<b>&lt; 5 years</b>	<b>5 - 10</b>	<b>&gt; 20 years</b>
US Government	\$ 26,794,829	\$ 23,642,854	\$ 3,151,975	\$ -
Municipal	655,810	131,139	-	524,671
Corporate Bonds	63,169,921	62,638,687	291,927	239,307
MTGE	40,064,129	38,955,319	1,108,577	233
<b>Total</b>	<b>\$ 130,684,689</b>	<b>\$ 125,367,999</b>	<b>\$ 4,552,479</b>	<b>\$ 764,211</b>

**CITY OF NEWPORT NEWS, VIRGINIA**  
Notes to Basic Financial Statements  
June 30, 2014

**(3) Accounts Receivable**

Net accounts receivable in the Statement of Net Position are as follows:

	<b>Governmental activities</b>	<b>Business-type activities</b>
Taxes receivable:		
Real Estate	\$ 6,842,127	-
Personal Property	5,968,365	-
Total taxes receivable, net	12,810,492	-
Accounts receivable	7,174,341	12,920,856
Total receivables, net	\$ 19,984,833	12,920,856

Accounts receivable and receivables from other governments as of year-end for the City's individual major funds and nonmajor and fiduciary funds, in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<b><u>General</u></b>	<b><u>Public Utility</u></b>	<b><u>Fiduciary Funds</u></b>	<b><u>Nonmajor Funds</u></b>	<b><u>Total</u></b>
Receivables:					
Taxes	\$ 17,611,383	-	-	-	17,611,383
Accounts	4,493,697	14,293,137	3,931,748	4,199,398	26,917,980
Intergovernmental:					
Federal	2,804,270	-	-	2,210,980	5,015,250
State	13,995,707	-	-	3,008,189	17,003,896
Local	-	-	-	158,175	158,175
Gross receivables	38,905,057	14,293,137	3,931,748	9,576,742	66,706,684
Less allowance for doubtful accounts	(4,800,891)	(1,372,281)	-	(1,520,392)	(7,693,564)
Net total receivables	\$ 34,104,166	12,920,856	3,931,748	8,056,350	59,013,120

In the governmental fund, unavailable revenues consist of revenues that are measurable but not available for use during the current period. Property taxes receivable at June 30 but not collected within 45 days after that date are reported as deferred inflows of resources in the financial statements. At the end of the current fiscal year, unavailable revenue of \$0.5 million was reported in the governmental nonmajor funds related to stormwater fees. The General Fund had unavailable revenues of \$9.1 million related to property taxes.

**CITY OF NEWPORT NEWS, VIRGINIA**  
Notes to Basic Financial Statements  
June 30, 2014

**(4) Capital Assets, Net**

Capital asset activity for the year ended June 30, 2014 was as follows:

**Primary Government**

	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 87,524,612	1,285,033	15,500	88,794,145
Construction in progress	53,633,244	37,159,318	15,228,673	75,563,889
Total capital assets, not being depreciated	<u>141,157,856</u>	<u>38,444,351</u>	<u>15,244,173</u>	<u>164,358,034</u>
Capital assets, being depreciated:				
Buildings	348,673,753	-	-	348,673,753
Improvements	184,082,729	3,926,029	-	188,008,758
Machinery and equipment	146,887,218	7,963,007	10,702,990	144,147,235
Infrastructure	492,421,818	4,464,350	-	496,886,168
Total capital assets being depreciated	<u>1,172,065,518</u>	<u>16,353,386</u>	<u>10,702,990</u>	<u>1,177,715,914</u>
Less accumulated depreciation for:				
Buildings	112,717,576	6,514,505	-	119,232,081
Improvements	85,565,748	6,467,804	-	92,033,552
Machinery and equipment	97,646,771	10,461,988	9,376,814	98,731,945
Infrastructure	320,101,373	8,776,234	-	328,877,607
Total accumulated depreciation	<u>616,031,468</u>	<u>32,220,531</u>	<u>9,376,814</u>	<u>638,875,185</u>
Total capital assets being depreciated, net	<u>556,034,050</u>	<u>(15,867,145)</u>	<u>1,326,176</u>	<u>538,840,729</u>
Capital assets, net	<u>\$ 697,191,906</u>	<u>22,577,206</u>	<u>16,570,349</u>	<u>703,198,763</u>

Depreciation expense for governmental activities was charged to functions of the Primary Government as follows:

General Government	\$ 2,074,648
Judicial Administration	419,288
Public Safety	4,498,747
Public Works	10,231,482
Health and Welfare	165,298
Education	5,200,884
Parks, Recreation and Culture	5,066,008
Community Development	589,534
Non-departmental	34,374
Internal Service Fund	3,940,268
	<u>\$ 32,220,531</u>

**CITY OF NEWPORT NEWS, VIRGINIA**  
Notes to Basic Financial Statements  
June 30, 2014

Construction in progress for the City at June 30, 2014 is composed of the following project authorizations and contract commitments (in millions):

	<b>Project Authorization</b>	<b>Expended as of June 30, 2014</b>	<b>Balance of Authorization</b>	<b>Contract Commitments (Encumbrances)</b>	<b>Future Funding Requirements</b>
General Government	\$ 5.6	2.3	3.3	1.7	5.7
Health & Welfare	0.8	-	0.8	-	-
Public Safety	14.1	5.5	8.6	8.7	6.5
Public Works	83.1	22.3	60.8	21.4	7.2
Parks and Recreation	16.6	8.2	8.4	3.5	3.2
Economic Development and Urban Renewal	18.7	7.5	11.2	1.0	4.3
Public Schools	33.6	2.6	31.0	-	12.2
Totals	<u>\$ 172.5</u>	<u>48.4</u>	<u>124.1</u>	<u>36.3</u>	<u>39.1</u>

**Business-type Activities:**

	<b>Balance July 1, 2013</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2014</b>
<b>Public Utility:</b>				
Capital assets, not being depreciated:				
Land	\$ 7,133,367	169,000	-	7,302,367
Construction in progress	15,369,666	5,416,980	1,951,529	18,835,117
Total capital assets, not being depreciated	<u>22,503,033</u>	<u>5,585,980</u>	<u>1,951,529</u>	<u>26,137,484</u>
Capital assets, being depreciated:				
Buildings	152,185,865	-	-	152,185,865
Improvements	404,239,112	4,446,782	493,567	408,192,327
Machinery and equipment	33,653,813	2,387,770	1,159,819	34,881,764
Total capital assets being depreciated	<u>590,078,790</u>	<u>6,834,552</u>	<u>1,653,386</u>	<u>595,259,956</u>
Less accumulated depreciation for:				
Buildings	45,865,908	3,734,798	-	49,600,706
Improvements	157,885,740	7,576,396	390,920	165,071,216
Machinery and equipment	23,511,991	2,560,688	1,151,884	24,920,795
Total accumulated depreciation	<u>227,263,639</u>	<u>13,871,882</u>	<u>1,542,804</u>	<u>239,592,717</u>
Total capital assets being depreciated, net	<u>362,815,151</u>	<u>(7,037,330)</u>	<u>110,582</u>	<u>355,667,239</u>
Capital assets, net	<u>\$ 385,318,184</u>	<u>(1,451,350)</u>	<u>2,062,111</u>	<u>381,804,723</u>

**CITY OF NEWPORT NEWS, VIRGINIA**  
Notes to Basic Financial Statements  
June 30, 2014

**Discretely Presented Component Units**

	<u>Balance</u> <u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2014</u>
<b>Public Schools:</b>				
Capital assets, not being depreciated:				
Land	\$ 2,505,084	-	-	2,505,084
Construction in progress	-	1,427,742	-	1,427,742
Total capital assets, not being depreciated	<u>2,505,084</u>	<u>1,427,742</u>	<u>-</u>	<u>3,932,826</u>
Capital assets, being depreciated:				
Buildings	46,849,002	-	-	46,849,002
Improvements	51,496,466	548,394	-	52,044,860
Machinery and equipment	63,571,105	4,701,156	3,047,387	65,224,874
Total capital assets being depreciated	<u>161,916,573</u>	<u>5,249,550</u>	<u>3,047,387</u>	<u>164,118,736</u>
Less accumulated depreciation for:				
Buildings	28,125,275	772,845	-	28,898,120
Improvements	18,738,171	1,978,556	-	20,716,727
Machinery and equipment	43,657,792	4,858,330	3,033,024	45,483,098
Total accumulated depreciation	<u>90,521,238</u>	<u>7,609,731</u>	<u>3,033,024</u>	<u>95,097,945</u>
Total capital assets being depreciated, net	<u>71,395,335</u>	<u>(2,360,181)</u>	<u>14,363</u>	<u>69,020,791</u>
Capital assets, net	<u>\$ 73,900,419</u>	<u>(932,439)</u>	<u>14,363</u>	<u>72,953,617</u>

Depreciation expense of \$7,609,731 was charged to the Public School's governmental functions.

Construction in progress for the Public Schools at June 30, 2014 is composed of project authorizations of \$9,020,775, amounts expended through June 30, 2014 of \$5,321,768, and a remaining balance of \$3,699,007.

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**CITY OF NEWPORT NEWS, VIRGINIA**  
Notes to Basic Financial Statements  
June 30, 2014

	<u>Balance July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>
<b>E/IDA:</b>				
Capital assets, not being depreciated -				
Construction in progress	\$ 7,913,943	818,967	3,342,676	5,390,234
Capital assets, being depreciated:				
Infrastructure	2,543,500	-	-	2,543,500
Buildings	183,476,933	243,897	-	183,720,830
Improvements	14,274,715	-	-	14,274,715
Machinery and equipment	84,674	-	-	84,674
Total capital assets being depreciated	200,379,822	243,897	-	200,623,719
Less accumulated depreciation for:				
Infrastructure	717,838	97,768	-	815,606
Buildings	37,860,693	4,291,662	-	42,152,355
Improvements	6,700,685	372,970	-	7,073,655
Machinery and equipment	84,674	-	-	84,674
Total accumulated depreciation	45,363,890	4,762,400	-	50,126,290
Total capital assets being depreciated, net	155,015,932	(4,518,503)	-	150,497,429
Capital assets, net	\$ 162,929,875	(3,699,536)	3,342,676	155,887,663

	<u>Balance July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>
<b>PAC:</b>				
Capital assets, not being depreciated -				
Land	\$ 6,604,658	-	-	6,604,658
Construction in progress	12,727,171	9,202,951	17,955,338	3,974,784
Total capital assets not being depreciated	19,331,829	9,202,951	17,955,338	10,579,442
Capital assets, being depreciated:				
Airfield	78,554,747	8,168,328	1,041,581	85,681,494
Terminal	62,489,115	9,717,483	101,884	72,104,714
Trailer park and rental units	1,852,612	-	-	1,852,612
Other	4,244,872	69,527	68,572	4,245,827
Total capital assets being depreciated	147,141,346	17,955,338	1,212,037	163,884,647
Less accumulated depreciation for:				
Airfield	36,415,659	3,594,577	990,743	39,019,493
Terminal	25,122,263	2,641,405	101,885	27,661,783
Trailer park and rental units	1,852,612	-	-	1,852,612
Other	1,716,235	311,462	67,604	1,960,093
Total accumulated depreciation	65,106,769	6,547,444	1,160,232	70,493,981
Total capital assets being depreciated, net	82,034,577	11,407,894	51,805	93,390,666
Capital assets, net	\$ 101,366,406	20,610,845	18,007,143	103,970,108

**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2014

**(5) Interfund Receivables, Payables, and Transfers**

The composition of interfund balances as of June 30, 2014, is as follows:

Receivables/payables between other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Gov. Fund: Wastewater	\$1,198,023
General Fund	Nonmajor Gov. Fund: CDGB	34,815
General Fund	Nonmajor Gov. Fund: Animal Shelter	5,335
Nonmajor Gov. Fund: Gen. Cap. Imp. Fund	Nonmajor Gov. Fund: Capital Project Grants	1,729,857

Interfund balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur and (2) payments between funds are made.

Due to/from external parties:

<u>Due from external party</u>	<u>Due to external party</u>	<u>Amount</u>
Pension Fund	General Fund	\$2,327,525
OPEB Fund	General Fund	873,075

Receivables/payables between Primary Government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
City	Industrial Development Authority	\$10,156,140
Newport News Public Schools	City	541,161

The IDA Payable of \$10,156,140 represents the outstanding balance of the City's financing of the Applied Research Center (ARC). In June 2014, the City agreed to write down the amount the IDA owes for the financing of the construction of the Applied Research Center by \$1,000,000. The IDA's annual payments to the City represent net leasing revenues from the ARC.

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# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2014

Individual fund interfund transfers for the primary government are as follows:

	Transfers to:				
	General Fund	Nonmajor Governmental Capital Projects	Debt Service	Nonmajor Governmental Special Revenue	Total
<b>Transfers from:</b>					
General Fund	\$ -	12,794,132	35,006,648	912,960	48,713,740
Nonmajor Governmental -					
Special Revenue	750,000	-	10,950,960	-	11,700,960
Public Utility	9,391,000	-	-	-	9,391,000
	<u>\$ 10,141,000</u>	<u>12,794,132</u>	<u>45,957,608</u>	<u>912,960</u>	<u>69,805,700</u>

Transfers are used when another fund is required, legally or through budgetary design to provide resources for the payment of current debt requirements. One fund is responsible for the initial receipt of funds and another fund is authorized to use the resources to finance its operating expenditures or expenses. Transfer from the Public Utility Fund to the General Fund is used to finance general governmental expenditures.

### (6) Lease Agreements

#### (a) Land Lease Payments – Primary Government

Land: The City has a lease agreement with Mariner’s Museum through 2018 to finance the acquisition of a parcel of land. The lease is accounted for as a capital lease and recorded at the present value of the future minimum lease payments at the date of inception. The cost of the land is \$3,150,000 and is included in capital assets. The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014 were as follows:

Years ending June 30:	
2015	\$ 270,811
2016	270,811
2017	270,811
2018	270,811
Total	<u>\$ 1,083,244</u>
Less Interest	<u>122,310</u>
Present Value	<u>\$ 960,934</u>

**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2014

**(b) Capital Lease Payments – Public Schools (Component Unit)**

The School Board has one lease agreement at June 30, 2014 for financing the acquisition of property and equipment and a second lease, which was completed by June 30, 2014 for which the leases qualify for capital lease accounting; therefore, the transactions have been recorded at the present value of their future minimum lease payments as of the inception date.

The net book value of assets acquired through the one remaining capital leases is as follows:

Machinery and equipment	\$ 1,072,755
Less accumulated depreciation	(411,223)
Assets acquired through capital leases, net	<u>\$ 661,532</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014, were as follows:

Years ending June 30:

2015	\$ 237,658
2016	237,658
2017	237,658
2018	39,610
Total minimum lease payments	<u>\$ 752,584</u>
Less amounts representing interest	(47,932)
Present value of minimum capital lease payments	<u>\$ 704,652</u>

**(c) Operating Lease Payments – Component Units**

The School Board had a lease terminated effective July 15, 2013 resulting in an early termination penalty of \$214,891, which was paid by the lessor of an existing lease since additional space was being leased at that site. The School Board had two ongoing leased buildings in 2014. Part of the leased space expires on June 30, 2028 and the other leased space in that same building expires on June 30, 2030. One other lease expires on December 31, 2015 with the School Board option to renew for one additional year. Total costs for such leases were approximately \$442,386 for the year ended June 30, 2014.

The E/IDA leases land and property in Newport News. Original lease terms range from one to twenty years. In FY 2014, the Authorities were leasing the Apprentice School Parking Garage for \$1.5 million. The Authorities are purchasing the parking garage in FY 2015 and will no longer have this long term lease obligation.

**CITY OF NEWPORT NEWS, VIRGINIA**

## Notes to Basic Financial Statements

June 30, 2014

PAC leases equipment under a long-term non-cancelable operating lease. The initial lease term is five years and expires in February 2018. The lease provides renewal options for additional periods.

The future minimum lease payments for these leases are as follows:

	<u>Schools</u>	<u>E/IDA</u>	<u>PAC</u>
Years ending June 30:			
2015	\$ 665,113	1,346,593	12,648
2016	628,295	1,171,330	12,648
2017	664,509	1,007,885	12,648
2018	668,776	1,009,833	8,432
2019	673,129	1,011,817	-
2020-2024	3,563,107	4,795,353	-
2025-2029	3,298,556	1,895,833	-
2030	296,938	-	-
	\$ <u>10,458,423</u>	<u>12,238,644</u>	<u>46,376</u>

**(d) Operating Lease Revenues – Component Units**

The E/IDA have developed several properties where they continue to own the land and buildings. These properties were developed with the purpose of entering into lease agreements with private companies, whose terms range from 1 to 25 years.

The following schedule shows the composition of E/IDA's investment in property in operating leases:

Land	\$ 5,496,625
Buildings	109,372,320
Improvements & Parking Lots	3,813,459
Less accumulated depreciation	<u>(32,111,084)</u>
Net investment in property held for lease	<u>\$ 86,571,320</u>

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# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2014

PAC leases property to tenants including terminal space, hangers and land.

Minimum future rental income on operating leases as of June 30, 2014 is as follows:

	<u>E/IDA</u>	<u>PAC</u>
Year ending June 30:		
2015	\$ 9,629,076	846,854
2016	8,731,436	829,680
2017	8,257,381	833,656
2018	6,079,940	725,023
2019	2,565,306	711,431
2020-2024	7,538,382	3,706,323
2025-2029	5,768,655	—
2030	434,875	—
Total	<u>\$ 49,005,051</u>	<u>7,652,967</u>

Rental income on operating leases for year ended 2014 was \$10,071,317 and \$994,077 for E/IDA and PAC, respectively.

### (e) *Net Investment in Direct Financing Leases – E/IDA (Component Unit)*

The E/IDA is lessor in one direct financing lease on a property within the City. The lease agreement, whose remaining term is two years, is an agreement with a private company, the objective of which is to increase the economic activity in the City.

The following schedule lists the composition of the net investment in the direct financing leases as of June 30, 2014:

Minimum lease payments to be received	\$ 1,055,029
Less unearned income	<u>(14,125)</u>
Net investment in direct financing leases	<u>\$ 1,040,904</u>

Minimum future rental income on these direct financing leases as of June 30, 2014 is as follows:

Year ending June 30:	
2015	\$ 973,873
2016	<u>81,156</u>
Total	<u>\$ 1,055,029</u>

**CITY OF NEWPORT NEWS, VIRGINIA**  
Notes to Basic Financial Statements  
June 30, 2014

**(7) Long-Term Liabilities**

- (a) A summary of changes in long-term liabilities for governmental activities for the year ended June 30, 2014 is as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due within one year
Bonds payable:					
General obligation bonds	\$ 378,327,687	101,115,000	(95,660,983)	383,781,704	38,388,494
Deferred amounts:					
Add bonds premiums	21,142,386	16,360,802	(5,351,546)	32,151,642	3,743,185
Total bonds payable	<u>399,470,073</u>	<u>117,475,802</u>	<u>(101,012,529)</u>	<u>415,933,346</u>	<u>42,131,679</u>
Literary loan bonds	5,877,889	—	(419,767)	5,458,122	419,767
Capital leases payable	—	610,926	(40,225)	570,701	136,954
Land lease payable	1,167,320	—	(206,386)	960,934	219,115
Land purchase payable	600,001	—	(458,334)	141,667	141,667
Landfill liability	4,890,000	—	(250,000)	4,640,000	262,000
Accrued vacation	19,466,735	12,604,020	(12,422,456)	19,648,299	12,539,206
Net pension obligation	217,121,000	56,912,000	(47,680,000)	226,353,000	—
Net OPEB obligation	28,332,411	11,830,440	(10,240,000)	29,922,851	—
Workers' comp. and other claims	15,642,846	4,903,250	(3,483,650)	17,062,446	3,504,090
Incurred but not reported medical claims	3,304,695	33,026,174	(31,999,617)	4,331,252	4,331,252
Total long-term liabilities*	<u>\$ 695,872,970</u>	<u>237,362,612</u>	<u>(208,212,964)</u>	<u>725,022,618</u>	<u>63,685,730</u>

\*Balances were restated to reflect implementation of GASB 65

Long-term liabilities are normally paid from the General Fund.

General obligation bonds of \$19.6 million are authorized but unissued.

The land purchase payable consists of one property purchased on installment, which is being paid for with available cash. No debt was issued to finance the purchase.

On May 22, 2014, the City issued \$45,000,000 principal amount of General Obligation General Improvement Bonds Series 2014A with a true interest cost of 3.053%. The net proceeds of \$52,354,863.66 (after an original issue premium of \$7,463,858 and payment of \$108,994 for underwriting fees and other issuance costs) were used to finance the costs of various capital improvement projects.

On May 22, 2014, the City issued \$49,920,000 principal amount of General Obligation Refunding Bonds Series 2014A with a true interest cost of 2.432%. The proceeds of the sale, exclusive of the accrued interest and costs of issuance, were applied to the refunding of \$2,860,000 outstanding principal amount of the City's 2004B Series, \$1,000,000 outstanding principal amount of the City's 2004C Series, \$4,510,000 outstanding principal amount of the City's 2006A Series, \$14,000,000 outstanding principal amount of the City's 2007A Series, \$18,550,000 outstanding principal amount of the City's 2008A Series, \$6,300,000 outstanding principal amount of the City's 2011A, and \$4,800,000 outstanding principal amount of the City's 2012C Series with average interest rates of 5%, 5%, 4.25%, 4.2%, 4.9%, 5%, and 5%

## **CITY OF NEWPORT NEWS, VIRGINIA**

### **Notes to Basic Financial Statements**

**June 30, 2014**

respectively. The net proceeds of \$58,693,852 (after an original premium of \$8,896,944 and payment of \$112,513 for underwriting fees and other issuance costs) were deposited with U.S. Bank National Association, Richmond, Virginia, as Escrow Agent, under an Escrow Deposit Agreement, dated May 22, 2014 (the "Escrow Deposit Agreement"). Such proceeds were invested in Government Securities (as defined in the Escrow Deposit Agreement). The Government Securities will mature and bear interest payable at times and in amounts sufficient to pay interest when due on the Refunded Bonds to their respective redemption dates and to pay the redemption prices of the Refunded Bonds on such dates. The City is undertaking the refunding of such outstanding obligation bonds described above in order to reduce its annual debt service expenditures. Due to the refunding, overall aggregate debt service payments were reduced by \$4,288,918. In addition, this resulted in an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$3,131,615.

On May 22, 2014, the City issued \$6,195,000 principal amount of Taxable General Obligation Refunding Bonds Series 2014B with a true interest cost of 3.079%. The proceeds of the sale, exclusive of the accrued interest and costs of issuance, were applied to the refunding of \$5,765,000 outstanding principal amount of the City's Taxable 2005A Series with an average interest rate of 5.1%. The net proceeds of \$6,172,879 (after payment of \$12,225 for underwriting fees and other issuance costs) were deposited with U.S. Bank National Association, Richmond, Virginia, as Escrow Agent, under an Escrow Deposit Agreement dated May 22, 2014 (the "Escrow Deposit Agreement"). Such proceeds were invested in Government Securities (as defined in the Escrow Deposit Agreement). The Government Securities will mature and bear interest payable at times and in amounts sufficient to pay interest when due on the Refunded Bonds to their respective redemption dates and to pay the redemption prices of the Refunded Bonds on such dates. The City is undertaking the refunding of such outstanding obligation bonds described above in order to reduce its annual debt service expenditures. Due to the refunding, overall aggregate debt service payments were reduced by \$456,758. In addition, this resulted in an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$445,459.

At June 30, 2014, approximately \$27.4 million is considered defeased because refunding trusts have been established to pay for them.

*Landfill Liability:* The City closed its Denbigh landfill site on June 30, 1996. Virginia and Federal laws and regulations require a final cover and the performance of certain maintenance monitoring functions at the site for 30 years after closure. The \$4.6 million liability at June 30, 2014 represents the total estimated cost of closure and postclosure care through fiscal year 2027 and reflects what it would cost to perform all closure/postclosure care in 2014. Actual costs may be higher due to inflation, technology changes or regulation changes.

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2014

**Outstanding general obligation bonds at June 30, 2014 of the Primary Government governmental activities are comprised of the following issues:**

<b>G.O. Bond Series</b>	<b>Bond Date</b>	<b>Final Maturity Date</b>	<b>Effective Interest Rate (At Issue)</b>	<b>Balance June 30, 2014</b>
VRA 93D	09/17/93	06/01/15	3.60%	\$ 63,171
VRA 94A	06/02/94	01/01/16	3.60%	601,936
VMPL 95C	09/28/95	12/01/16	4.25%	737,565
VPSA 95C	12/01/95	07/15/15	5.20%	727,610
VRA 96C	01/24/96	10/01/16	3.65%	506,989
VRA 97A	01/30/97	10/01/17	3.70%	671,712
VRA 98A	01/22/98	12/01/17	3.70%	540,732
VRA 99A	03/09/99	12/01/19	3.80%	972,491
VRA 00A	03/01/00	03/01/21	3.50%	1,201,935
VPSA 00B	11/16/00	07/15/21	5.15%	2,371,501
VRA 01A	04/24/01	05/01/22	4.10%	1,052,399
VRA 02A	05/15/02	01/01/23	3.75%	1,497,238
Series 02B	09/26/02	07/01/16	3.40%	15,785,000
VRA 03A	06/24/03	06/01/24	3.50%	1,838,410
QZAB 03A	12/31/03	12/28/18	3.50%	1,090,819
QZAB 03B	12/31/03	12/28/18	3.50%	1,351,675
Series 04A	03/01/04	07/15/24	5.00%	1,250,000
VRA 04A	06/30/04	09/01/25	3.10%	1,919,625
Series 04D	12/01/04	12/01/24	5.00%	1,460,000
Series 05A	02/01/05	01/15/25	4.00%	605,000
VRA 05A	08/24/05	09/01/26	3.50%	2,393,455
Series 06A	02/16/06	02/01/26	4.00%	3,430,000
Series 06B	02/16/06	02/01/19	4.00%	15,645,000
VRA 06A	10/20/06	11/01/27	3.10%	2,081,464
Series 07A	04/05/07	03/01/27	4.10%	6,000,000
Series 07B	04/05/07	07/01/22	5.00%	20,215,000
VRA 07A	09/11/07	09/01/28	3.00%	2,481,993
Series 08A	04/09/08	07/28/28	4.00%	7,420,000
VRA 08	12/12/08	09/01/29	3.50%	2,550,268
Series 09A	05/06/09	06/30/30	3.44%	25,260,000
Series 09B	05/06/09	06/30/20	2.23%	9,205,000
VRA 09	12/16/09	09/01/30	3.35%	4,353,716
Series 11A	07/28/11	07/01/31	3.31%	31,500,000
Series 11B	07/28/11	07/01/19	1.97%	9,665,000
Series 12A	03/21/12	07/15/24	1.93%	43,350,000
Series 12B	03/21/12	07/15/19	1.41%	16,165,000
Series 12C	09/27/12	09/01/32	2.58%	40,800,000
Series 12D	09/27/12	09/01/21	1.77%	3,905,000
Series 14A	05/22/14	07/15/34	3.05%	45,000,000
Series 14A-Ref	05/22/14	07/15/27	2.43%	49,920,000
Series 14B	05/22/14	01/15/25	3.08%	6,195,000
<b>Totals</b>				<b>\$ 383,781,704</b>

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2014

Outstanding literary loans at June 30, 2014, of the Primary Government governmental activities are comprised of the following issues:

Project	Bond Date	Final Maturity Date	Effective Interest Rate (at issue)	Balance June 30, 2014
Warwick High	09/01/99	09/01/19	2%	\$ 55,200
Menchville High-2	10/01/00	10/01/20	2%	87,500
Denbigh High-2	08/01/01	08/01/21	2%	98,126
Gildersleeve Middle-2	08/15/01	08/15/21	2%	50,000
Dozier Middle	08/15/01	08/15/21	2%	50,000
Reservoir Middle	05/01/02	05/1/22	2%	50,000
Hines Middle	05/01/02	05/1/22	2%	50,000
Huntington Middle-2	09/01/02	09/1/22	2%	61,051
General Stanford	06/30/07	7/15/27	2%	4,956,245
Totals				\$ 5,458,122

The following table summarizes future debt service requirements as of June 30, 2014:

Fiscal year ending June 30:	General Obligation Bonds		Literary Loans	
	Principal	Interest	Principal	Interest
2015	\$ 38,388,494	13,571,363	\$ 419,767	109,163
2016	37,691,184	13,717,477	419,767	100,767
2017	37,327,111	12,245,367	419,767	92,372
2018	30,934,298	10,889,849	419,767	83,977
2019	28,302,661	9,672,300	419,767	75,580
2020 - 2024	113,609,124	33,010,515	1,943,222	254,575
2025 - 2029	65,946,113	12,497,643	1,416,065	70,803
2030 - 2034	29,332,719	2,988,139	-	-
2035	2,250,000	56,250	-	-
Total future debt service	\$ 383,781,704	108,648,903	\$ 5,458,122	787,237

## Business-type Activities

A summary of changes in long-term liabilities for capital-related, business-type activities for the year ended June 30, 2014 is as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due within one year
Bonds payable:					
General obligation bonds	\$ 111,380,000	21,185,000	34,005,000	98,560,000	12,545,000
Revenue bonds	36,809,584	—	877,917	35,931,667	914,167
Deferred amounts:					
Add bond premiums	4,815,166	3,601,058	1,444,090	6,972,134	958,730
Total bonds payable	\$ 153,004,750	24,786,058	36,327,007	141,463,801	14,417,897
Add deposits	3,576,968	982,034	1,199,990	3,359,012	—
Total long-term liabilities	\$ 156,581,718	25,768,092	37,526,997	144,822,813	14,417,897

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2014

On May 22, 2014, Public Utilities issued \$21,185,000 principal amount of General Obligation Refunding Bonds Series 2014A with a true interest cost of 2.494%. The proceeds of the sale, exclusive of the accrued interest and costs of issuance, were applied to the refunding of \$1,975,000 outstanding principal amount of Public Utilities' 2004B Water Bond, \$1,900,000 outstanding principal amount of Public Utilities' 2004C Water Bond, \$2,805,000 outstanding principal amount of Public Utilities' 2006A Water Bond, and \$15,495,000 outstanding principal amount of Public Utilities' 2008B Water Bond with average interest rate of 3.6%, 3.9%, 4.3% and 4.5%, respectively. The net proceeds of \$24,738,740 (after an original premium of \$3,601,058 and payment of \$47,318 for underwriting fees and other issuance costs) were deposited with U.S. Bank National Association, Richmond, Virginia, as Escrow Agent, under an Escrow Deposit Agreement, dated May 22, 2014 (the "Escrow Deposit Agreement"). Such proceeds were invested in Government Securities (as defined in the Escrow Deposit Agreement). The Government Securities will mature and bear interest payable at times and in amounts sufficient to pay interest when due on the Refunded Bonds to their respective redemption dates and to pay the redemption prices of the Refunded Bonds on such dates. Public Utilities are undertaking the refunding of such outstanding obligation bonds described above in order to reduce its annual debt service expenditures. Due to the refunding, overall aggregate debt service payments were reduced by \$2,003,610. In addition, this resulted in an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$1,466,795.

Outstanding public utility bonds at June 30, 2014 are comprised of the following issues:

<b>Public Utility Bond Series</b>	<b>Issue Date</b>	<b>Final Maturity Date</b>	<b>Interest Rate (At Issue)</b>	<b>Balance June 30, 2014</b>
2002B	09/26/02	07/01/16	3.8%	2,735,000
2006A	02/15/06	02/01/26	4.3%	1,370,000
2006B	02/15/06	02/01/19	4.3%	7,555,000
2007B	04/05/07	07/01/22	5.1%	17,950,000
2007A-IRB	06/30/07	06/01/37	4.6%	35,931,667
2008B	04/09/08	06/30/28	4.5%	4,395,000
2009B	05/06/09	09/01/29	4.3%	15,520,000
2011B	07/28/11	07/01/19	1.9%	490,000
2012A	03/21/12	07/15/24	1.9%	9,985,000
2012B	03/21/12	07/15/19	1.4%	17,375,000
2014A	05/22/14	07/15/27	2.5%	21,185,000
<b>Totals</b>				<b>\$ 134,491,667</b>

The following table summarizes future debt service requirements of Business-type Activities as of June 30, 2014:

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2014

Fiscal year ending June 30:	Business-type Activities	
	Principal	Interest
2015	\$ 13,459,167	5,073,531
2016	13,578,750	4,958,501
2017	13,983,333	4,624,012
2018	11,463,333	4,181,940
2019	11,839,583	4,479,057
2020-2024	36,593,335	15,440,879
2025-2029	16,755,833	7,025,395
2030-2034	9,867,916	3,148,451
2035-2037	6,950,417	718,250
Totals	\$ 134,491,667	49,650,016

### Public Schools – Component Unit

A summary of changes in long-term liabilities for the discretely presented component unit – Public Schools for the year ended June 30, 2014 is as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due within one year
Compensated absences	\$ 4,234,536	1,852,368	1,816,232	4,270,672	640,600
Workers' compensation claims	1,914,500	2,284,520	1,297,930	2,901,090	580,218
Capital leases payable	1,127,080	-	422,428	704,652	212,736
Capital facilities notes payable	5,966,505	-	2,380,794	3,585,711	-
Other postemployment benefits	28,750,120	8,481,430	8,548,391	28,683,159	-
Incurred but not reported medical claims	2,461,000	27,961,633	27,630,633	2,792,000	2,792,000
Totals	\$ 44,453,741	40,579,951	42,096,408	42,937,284	4,225,554

The capital facility notes payable provided financing for a fiber wide-area-network linking all School Board computers as well as a variety of energy conservation and water savings improvements.

The *Code of Virginia*, Section 22, sets forth the powers and responsibilities of the local school boards. School boards in Virginia have no taxing authority, but they are authorized to borrow money from the Commonwealth and to sell local school bonds through the City to the Virginia Public School Authority (VPSA). The City recorded the sale of school bonds to the VPSA as “other financing sources” in the City’s Debt Service Fund.

In February 2002, the Virginia General Assembly passed Senate Bill 276, which was subsequently signed by the Governor of Virginia, that provides that localities have a tenancy in common with the school board whenever a locality incurs a financial obligation for school property which is payable over more than one fiscal year. As a result, the City records on its Statement of Net Position any school property that is purchased with City long-term obligations. However, the Public Schools are still tasked with all care, management, and control over these properties.

**CITY OF NEWPORT NEWS, VIRGINIA**  
Notes to Basic Financial Statements  
June 30, 2014

**E/IDA and PAC – Component Units**

Industrial Revenue Bonds and Notes Payable (the Bonds and Notes) have been issued in the name of E/IDA to finance construction projects. The Bonds and Notes, both as to principal and interest, are payable generally from lease proceeds. In the event of default by the lessee, the holders of the Bonds and Notes have no recourse against the E/IDA, but must look to the property and lessee for indemnity. In 2014, approximately \$25.4 million of the Bonds and Notes are considered a moral obligation of the City. A moral obligation of the City is a contingent guarantee of a third party's debt. It is referred to as a "moral" obligation because it is not a legal obligation of the City but a good faith obligation, which, if called upon, would require appropriations by City Council of amounts sufficient to pay the guaranteed amounts. Since 1995, when the first moral obligation was issued by the E/IDA, there has never been a need to call upon the City to appropriate any funds on morally obligated debt.

The E/IDA bonds and Notes at June 30, 2014 are comprised of the following:

Bonds and notes payable	Issue date	Maturity date				Balance		Balance June 30, 2014	Amount due within one year
						July 1, 2013	Reductions		
UPS, 04	06/04/04	07/01/15	5.58%	m	\$	1,836,963	\$ 892,733	\$ 944,230	\$ 944,230
Sears	03/01/98	10/01/18	5.40%	mm		5,220,990	882,709	4,338,281	932,269
VSS	03/01/98	10/01/18	5.40%	mm		4,739,078	801,238	3,937,840	846,223
Downtown Engineering	04/05/00	07/01/31	7.64%			17,900,000	1,060,000	16,840,000	1,060,000
Merchant's Walk Garage	12/21/10	12/01/20	2.70%	a		7,152,000	894,000	6,258,000	894,000
PrintPack	08/15/03	09/01/18	2.70%			1,860,000	360,000	1,500,000	360,000
City Oper Center Area	12/07/04	07/01/26	3.50%	a		220,000	110,000	110,000	110,000
Fountain Way Garage	12/07/04	07/01/31	4.75%	a		2,680,000	670,000	2,010,000	670,000
Conference Center	12/07/04	07/01/31	4.75%	a		2,105,000	1,080,000	1,025,000	1,025,000
Hotel Promissory Note	12/07/04	07/01/31	4.75%	a		820,000	205,000	615,000	205,000
Rouse Project	12/29/05	01/15/31	5.14%	a		1,060,000	345,000	715,000	355,000
Mariner's Row Garage	12/29/05	01/15/31	5.14%	a		2,465,000	805,000	1,660,000	820,000
Conference Center	06/30/06	07/01/31	4.00%	a		6,930,000	—	6,930,000	35,000
CITI A '07	02/26/07	08/01/22	6.85%			2,569,110	214,063	2,355,047	225,148
CITI B '07	02/26/07	08/01/22	5.59%			539,400	46,753	492,647	49,473
Series 2012A	10/12/17	07/01/30	4.00%	a		25,390,000	—	25,390,000	—
Series 2012B	10/12/17	07/01/31	0.76%	a		25,950,000	—	25,950,000	—
809 Omni Blvd - Note	08/13/07	07/01/17	1.38%			1,500,000	—	1,500,000	—
Totals						110,937,541	8,366,496	102,571,045	8,531,343
Premium on bonds payable						4,404,353	342,428	4,061,925	342,401
Discount on bonds payable						(13,087)	(6,748)	(6,339)	(2,034)
Add interest rate swap fair value						3,688,883	801,294	2,887,589	—
Total bonds payable, net					\$	119,017,690	\$ 9,503,470	\$ 109,514,220	\$ 8,871,710

m balance denotes moral obligation of the City

mm balance denotes moral obligation of the City of \$2 million

a denotes payment agreement with the City

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2014

*Conduit Debt Obligations:* From time to time, the E/IDA has issued Industrial Revenue Bonds (the Bonds) to provide financial assistance to private-sector and nonprofit entities for the acquisition and construction of industrial, commercial and residential facilities deemed to be in the public interest. The Bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the Bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Not the City, the Commonwealth, nor any political subdivision thereof is obligated in any manner for repayment of the Bonds. Furthermore, in the event of default by the lessee, the holders of the Bonds have no recourse to the E/IDA, but must look to the property and lessee for indemnity. Accordingly, the Bonds are not reported as liabilities in the accompanying basic financial statements.

At June 30, 2014 and June 30, 2013, there were six and five of the Bonds outstanding with an aggregate principal amount payable of approximately \$264 and \$223 million, respectively.

*Interest Rate Swap Agreement:* As a means to lower its borrowing costs when compared against fixed-rate bonds at the time of issuance, the E/IDA have entered into multiple interest rate swaps in connection with various revenue bond issuances. The intention of the swaps was to effectively change the E/IDA variable interest rate on bonds to a synthetic fixed rate.

On April 6, 2000, the E/IDA entered into an interest rate swap agreement, a derivative instrument, with First Union National Bank, N.A. (First Union) whereby the E/IDA agreed to pay First Union a 7.64% fixed rate of interest on the E/IDA Taxable Incremental Variable Rate Demand Bonds, Series A, in the original principal amount of \$5 million, in exchange for the floating rate. The floating rate is determined weekly by the Remarketing Agent at a rate equal to the rate of interest certified to the Trustee by the Remarketing Agent on and as of each Wednesday (the Determination Date) as the minimum rate of interest which, in the judgment of the Remarketing Agent taking into account market conditions prevailing on the Determination Date, would be necessary to enable the Remarketing Agent to arrange for sale of all the Bonds in the secondary market on the Determination Date at a price equal to the principal amount thereof. This agreement is to continue in effect until July 1, 2016 (the Termination Date).

Interest is payable monthly and mandatory sinking fund redemption payments are due quarterly in July, October, January, and April commencing October 1, 2001. The debt service requirements through the Termination Date for these bonds are based on the fixed rate. The E/IDA will be exposed to variable interest rates if the swap agreement is terminated or if there occurs an event of default. A termination of the swap agreement may also result in the E/IDA making or receiving a termination payment.

The E/IDA entered into an interest rate swap on April 4, 2004 with the Bank of America, N.A., whereby the E/IDA agreed to pay Bank of America a 5.58% fixed rate of interest on the E/IDA Taxable Industrial Development Revenue and Refunding Bond, Series 2004 (United Parcel Service, Inc. Project) in the amount of \$8,046,249 in exchange for the floating rate.

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2014

In 2007, the E/IDA entered into two (2) interest rate swaps with the Bank of America, N.A., whereby the E/IDA agreed to pay Bank of America a 6.85% and 5.59% fixed rate of interest on 2007 Series A and B in the amount of \$3,604,169 and \$781,097, respectively, in exchange for the floating rate.

Because interest rates have declined since the execution of the swaps, the swaps had a combined negative fair value of \$2,887,589 as of June 30, 2014. If the Series 2000A or 2000B interest swaps were terminated, the E/IDA would be required to pay a termination payment in the amount of the fair value of the swap as of the termination date.

The PAC Airport Improvement Revenue Bonds at June 30, 2014, are comprised of the following:

Series	Issue Date	Maturity Date	Eff. Int. Rate (%)	Balance July 1, 2013	Reductions	Balance June 30, 2014	Amt Due in one year
2002	07/03/02	07/01/27	4.5	\$ 1,724,791	91,922	1,632,869	95,119
2005A	12/15/05	01/15/32	4.3	5,827,732	211,021	5,616,711	219,337
2005B	12/15/05	01/15/32	5.8	2,577,816	80,158	2,497,658	84,435
Totals				\$ 10,130,339	383,101	9,747,238	398,891

Maturities of industrial revenue bonds and notes payable for succeeding fiscal years are as follows:

	E/IDA		PAC	
	Principal	Interest	Principal	Interest
Fiscal year ending June 30:				
2015	\$ 8,531,343	4,399,014	398,891	453,966
2016	8,010,097	3,982,140	417,878	434,980
2017	9,926,721	3,610,516	437,784	415,073
2018	8,526,418	3,192,527	458,655	394,202
2019	6,650,607	2,879,738	480,539	372,318
2020-2024	27,480,859	10,995,081	2,770,042	1,494,243
2025-2029	23,600,000	5,457,587	3,152,042	774,918
2030-2032	9,845,000	611,935	1,631,407	108,411
Total	\$ 102,571,045	35,128,538	9,747,238	4,448,111

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# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2014

### (8) Defined Benefit Retirement Plan

#### (a) *Newport News Employees' Retirement Fund (NNERF or Plan)*

##### 1. Plan description

The Plan is a multi-employer, defined benefit, public employee retirement system established and administered by the City to provide pension and other postemployment benefits for employees of the City and the Schools. For those school teachers and administrative support personnel employed by Schools, the Plan provides a small supplement to the Virginia Retirement System (VRS) plan. The Plan has been closed to new entrants effective July 1, 2009 for Schools and March 1, 2010 for the City. For Schools employees receiving a supplemental benefit under the NNERF, their supplemental benefit was frozen as of December 31, 2012.

The Plan consists of two separate funds, the Pension Fund (Pension) and the Other Postemployment Benefits (OPEB) Fund. The Plan's two Funds are considered trust funds of the City, so they are included and incorporated within this Comprehensive Annual Financial Report (CAFR) as a fiduciary fund. The City issues a publicly available CAFR that includes financial statements and required information for the Plan.

All full-time regular employees hired prior to March 1, 2010 for the City and hired prior to July 1, 2009 for Schools are members of the Pension Fund. (Members who have earned a supplemental benefit are shown as "School VRS" members in the chart below.) Employees hired after the above dates are in VRS, a multiple-employer defined benefit pension plan administered by the Commonwealth of Virginia. NNERF benefits are available only to employees with five years' service. School VRS employees who did not have five years' service when the supplemental NNERF benefits were frozen at December 31, 2012, are not eligible for a supplemental benefit from NNERF. For the years ended June 30, 2014 and June 30, 2013, the total payroll of the City and Schools was approximately \$345.8 million and \$357.6 million, respectively, with approximately \$123.6 million and \$129.9 million paid to employees covered by the Pension Fund. The decrease in covered payroll from 2013 is the result of employees retiring or leaving employment. At June 30, 2014, membership in the Plan consisted of:

	Retirees and Beneficiaries	Vested Terminated Employees	Active Employees Vested	Active Employees Non-Vested	Total
City general	1,178	740	1,104	36	3,058
City police and fire	789	263	765	42	1,859
Public utilities	240	104	242	9	595
School VRS	2,525	3,445	-	-	5,970
School Non-VRS	805	216	606	23	1,650
Total	5,537	4,768	2,717	110	13,132

## **CITY OF NEWPORT NEWS, VIRGINIA**

### **Notes to Basic Financial Statements**

**June 30, 2014**

The Pension Fund provides pension, life insurance and disability benefits. Members vest after five years of credited service. Employees who retire at or after age 60 (50 for police officers, firefighters and deputy sheriffs) with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.0% of their average final compensation for each year of credited service worked through February 28, 2010, 1.85% for each year of credited service from March 1, 2010 through December 31, 2012, and 1.65% for each year of credited service after January 1, 2013. (For public safety employees, the multiplier remains at 1.85% for time worked after January 1, 2013.) Average Final Compensation (AFC) is defined as the average compensation paid during the member's 36 highest paid consecutive months of credited service. Employees with 30 years (25 for police officers, firefighters and deputy sheriffs) credited service may retire at any age with full benefits. Employees (other than police officers, firefighters and deputy sheriffs) with 25 years of service may retire prior to age 60 and receive a reduced benefit. Members began contributing to the Pension Fund as of January 1, 2013 for City employees and July 1, 2013 for School employees. City employees in NNERF began to contribute 5% of their salary to the Plan as of January 1, 2013. Schools employees began contributing 1% of their pay effective July 1, 2013 and will begin contributing the full 5% of their pay effective July 1, 2014.

Benefits and contribution provisions are established by City Ordinance and may be amended only by the City Council. An actuarial service is employed to advise the City Council and the Retirement Board of the contributions necessary to fund the benefits.

Employees with at least five years of credited service are eligible to purchase all or part of certain prior service credits, subject to IRS limits. The types of prior service eligible include time employed under other government programs and military service.

## **2. Concentrations**

There are no investments in any one issuer which represent 5% or more of the net position available for benefits.

## **3. Pension Fund-Contributions Required and Contributions Made**

The Plan engages an actuary to determine the Actuarially Determined Contribution (ADC) in accordance with GAAP. However, the City has elected to continue to compute the Actuarially Required Contribution (ARC) in order to track its progress on the eight year funding program established by the City in 2010. The eight year funding program was put in place in order to provide that, by 2017, the City would be contributing 100% of the recommended contribution. The City intends to begin funding of the 100% of ADC beginning in 2018. The percentage of the ARC contributed by both the city and employees in 2014 was 88%, compared to the City's eight-year plan of 73%.

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2014

Effective January 1, 2013, employee contributions to the Pension Fund were required. Contributions totaling \$29,364,826 and \$6,203,439 were made by employers and employees, respectively, to the Pension Fund during the year ended June 30, 2014. The percentage of contributions to covered payroll for fiscal year 2014 was 28.8% and 28.5% for fiscal year 2013. The percentage of normal costs to covered payroll was 8.03% and 8.11% for fiscal years ending June 30, 2014 and June 30, 2013, respectively.

### GASB 67

The City's change in net pension liability of the Pension Fund for 2014 was as follows:

Required Supplementary Information (unaudited)

	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Position Liability (a)-(b)</b>
<b>Balances at 6/30/2013</b>	\$ 1,179,825,250	\$ 774,112,770	405,712,480
<b>Changes for the year:</b>			
Service cost	10,534,763	-	10,534,763
Interest	86,803,765	-	86,803,765
Contributions - employer	-	29,364,826	(29,364,826)
Contributions - member	-	6,558,611	(6,558,611)
Net investment income	-	113,205,029	(113,205,029)
Benefit payments	(67,393,918)	(67,393,918)	-
Administrative expenses	-	(866,517)	866,517
<b>Net changes</b>	<b>29,944,610</b>	<b>80,868,031</b>	<b>(50,923,421)</b>
<b>Balances at 6/30/2014</b>	<b>\$ 1,209,769,860</b>	<b>\$ 854,980,801</b>	<b>\$ 354,789,059</b>

### GASB 25

The City's annual pension costs and net pension obligation for 2014 and 2013 is as follows:

	<b>2014</b>	<b>2013</b>
(000's Omitted)		
Annual required contribution	\$ 40,628	\$ 56,839
Interest on net pension obligation (NPO)	16,284	15,172
Adjustment to ARC	(18,315)	(16,691)
Annual pension cost (APC)	38,597	55,320
Contributions made	(29,365)	(33,968)
Increase in net pension obligation	9,232	21,352
Net pension obligation at beginning of year	217,121	195,769
Net pension obligation at end of year	\$ 226,353	\$ 217,121

**CITY OF NEWPORT NEWS, VIRGINIA**  
Notes to Basic Financial Statements  
June 30, 2014

**Pension Fund-Funded Status and Funding Progress**

**GASB 67**

The funded status of the Pension Fund as of 2014 was as follows (\$ in millions):

	<u><b>2014</b></u>
Funded Ratio	70.4 %
Covered Payroll	\$ 129.9
NPL as a percentage of covered payroll	275.8 %
Plan Fiduciary Net Position	\$ 855.0
Total Pension Liability	\$ <u>1,210.0</u>
Net Position Liability	\$ <u><u>355.0</u></u>

**GASB 25**

The funded status of the plan as of June 30, 2014 was as follows:

(in millions)

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Unfunded accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2014	\$ 787.6	1,216.0	428.4	64.8%	123.6	-335.4%

The reporting date for the Pension Fund is June 30, 2014. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2014 and the Total Pension Liability (TPL) as of the valuation date, June 30, 2013, updated to June 30, 2014. There were no significant events between the valuation date and the measurement date; therefore, the update procedures only included the addition of service cost and interest cost offset by actual benefit payments. In future years, both the beginning and end of year TPL will be measured as of a valuation date on year prior and projected to the appropriate date.

Analysis of the dollar amounts of the plan fiduciary net position, total pension liability, and net position liability in isolation can be incomplete. Expressing plan fiduciary net position as a percentage of the total pension liability provides one indication of the Plan's funding status on a going concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker.

## **CITY OF NEWPORT NEWS, VIRGINIA**

### **Notes to Basic Financial Statements**

**June 30, 2014**

Schedules of Funding Progress and Employer Contributions are included in the Required Supplemental Information Section. The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Potential effects of legal and contractual limitations are not explicitly incorporated in benefits for financial reporting purposes.

The actuarial assumptions have been approved by the Pension Board of Trustees, upon the recommendations from the Plan actuary, based on the experience study of the period July 1, 2008 through June 30, 2012. The significant actuarial assumptions are shown below:

#### **GASB 67**

Actuarial valuation date	July 1, 2014
Actuarial cost method	Entry age
Amortization method	Closed 30-year level dollar from July 1, 2011
Actuarial assumptions:	
Investment rate of return	7.50%
Rate of salary increases	For the City: 2.00% for the next four years 4.50% thereafter
	For the Non-VRS Schools: 3.00% for the next three years 2.00% for the fourth year 4.5% thereafter
Cost of living adjustment	1.33%
Inflation	2.80%

#### **GASB 25**

Actuarial valuation date	July 1, 2014
Amortization method	Closed 30-year level dollar from July 1, 2011
Remaining amortization period	26 years
Asset valuation method	Five-year smoothed market

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2014

Actuarial assumptions:

Investment rate of return	7.50%
General wage growth	N/A
Rate of salary increases	Ultimate rate of 4.5%

### 4. Pension Fund-Three Year Trend Information

The chart below shows the changes in the Annual Pension Cost and the Net Pension Obligation over the past three years.

(000's omitted)

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014	\$ 38,597	76.0%	\$ 226,353
June 30, 2013	55,320	61.4%	217,121
June 30, 2012	53,805	60.9%	195,769

### 5. Sensitivity of the Net Pension Liability to Changes in the Discount

The following presents the net pension liability of the City, calculated using the discount rate of 7.5 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percent-age-point lower (6.50 percent) or 1-percent-point higher (8.5 percent) than the current rate:

	1% Decrease 6.50%	Discount Rate 7.50%	1% Increase 8.50%
Total pension liability	\$ 1,349,395,659	\$ 1,209,996,570	\$ 1,093,015,910
Plan fiduciary net position	851,653,111	851,653,111	851,653,111
Net Pension Liability	<u>\$ 497,742,548</u>	<u>\$ 358,343,459</u>	<u>\$ 241,362,799</u>
Plan fiduciary net position as a Percentage of the Total Pension Liability	63.1%	70.4%	77.9%

### (b) Virginia Retirement System:

#### 1. Plan Description

The City, Schools and the PAC contribute to the VRS, an agent multiple-employer defined benefit pension plan administered by the VRS. In addition, VRS administers a single employer plan for all School Board non-professional employees hired on or after July 1, 2009. Those hired between July 1, 2009 and June 30, 2010 are under the provisions of

**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2014

Plan 1 and those hired on or after July 1, 2010 are under the provisions of Plan 2, which plans are described below.

All full-time, salaried permanent employees of participating employers must participate in the VRS. (As of March 1, 2010, the City closed NNERF to new membership. All full-time employees hired after February 28, 2010 participate in the VRS). Benefits vest after five years of service. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service.

VRS administers three different benefit plans for local government employees – Plan 1, Plan 2, and Hybrid. Each plan has different eligibility and benefit structures as set out in the table below:

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2014

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p><b>About VRS Plan 1</b> VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p><b>About VRS Plan 2</b> VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p><b>About the Hybrid Retirement Plan</b> The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members")</p> <ul style="list-style-type: none"> <li>• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</li> <li>• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.</li> <li>• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.</li> </ul>

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2014

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Eligible Members</b> Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.</p>	<p><b>Eligible Members</b> Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.</p>	<p><b>Eligible Members</b> Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>• State employees*</li> <li>• School division employees</li> <li>• Political subdivision employees*</li> <li>• Judges appointed or elected to an original term on or after January 1, 2014</li> <li>• Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014</li> </ul> <p><b>*Non-Eligible Members</b> Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>• Members of the State Police Officers' Retirement System (SPORS)</li> <li>• Members of the Virginia Law Officers' Retirement System (VaLORS)</li> <li>• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees</li> </ul> <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or</p>

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
		VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.
<p><b>Retirement Contributions</b> Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p><b>Retirement Contributions</b> Same as VRS Plan 1.</p>	<p><b>Retirement Contributions</b> A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
<p><b>Creditable Service</b> Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their</p>	<p><b>Creditable Service</b> Same as VRS Plan 1.</p>	<p><b>Creditable Service</b> <u><b>Defined Benefit Component:</b></u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A</p>

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2014

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>		<p>member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><b><u>Defined Contributions Component:</u></b> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p><b>Vesting</b> Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p><b>Vesting</b> Same as VRS Plan 1.</p>	<p><b>Vesting</b> <b><u>Defined Benefit Component:</u></b> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><b><u>Defined Contributions Component:</u></b></p>

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2014

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
		<p>Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p>
<p><b>Calculating the Benefit</b> The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one</p>	<p><b>Calculating the Benefit</b> See definition under VRS Plan 1.</p>	<p><b>Calculating the Benefit</b> <b><u>Defined Benefit Component:</u></b> See definition under VRS Plan 1.</p> <p><b><u>Defined Contribution Component:</u></b></p>

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2014

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>		<p>The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p><b>Average Final Compensation</b> A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p><b>Service Retirement Multiplier</b> The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.</p>	<p><b>Service Retirement Multiplier</b> Same as Plan1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p>	<p><b>Service Retirement Multiplier</b> The retirement multiplier is 1.0%.</p> <p>For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p>
<p><b>Normal Retirement Age</b> Age 65.</p>	<p><b>Normal Retirement Age</b> Normal Social Security retirement age.</p>	<p><b>Normal Retirement Age</b> <u><b>Defined Benefit Component:</b></u> Same as VRS Plan 2.</p> <p><u><b>Defined Contribution Component:</b></u> Members are eligible to</p>

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2014

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
		receive distributions upon leaving employment, subject to restrictions.
<p><b>Earliest Unreduced Retirement Eligibility</b> Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> <u><b>Defined Benefit Component:</b></u> Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p><u><b>Defined Contribution Component:</b></u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Reduced Retirement Eligibility</b> Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility</b> Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> <u><b>Defined Benefit Component:</b></u> Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p><u><b>Defined Contribution Component:</b></u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> The Cost-of-Living Adjustment</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> The Cost-of-Living</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> <u><b>Defined Benefit Component:</b></u></p>

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2014

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>(COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><b><u>Eligibility:</u></b> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability under the</li> </ul>	<p>Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><b><u>Eligibility:</u></b> Same as VRS Plan 1</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> Same as VRS Plan 1</p>	<p>Same as VRS Plan 2.</p> <p><b><u>Defined Contribution Component:</u></b> Not applicable.</p> <p><b><u>Eligibility:</u></b> Same as VRS Plan 1 and VRS Plan 2.</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> Same as VRS Plan 1 and VRS Plan 2.</p>

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2014

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Virginia Sickness and Disability Program (VSDP).</p> <ul style="list-style-type: none"> <li>• The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.</li> <li>• The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.</li> </ul>		
<p><b>Disability Coverage</b></p> <p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability</p>	<p><b>Disability Coverage</b></p> <p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability</p>	<p><b>Disability Coverage</b></p> <p>Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p> <p>State employees (including VRS Plan 1 and VRS Plan2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>Hybrid members (including</p>

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2014

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
benefits.	benefits.	VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.
<b>Purchase of Prior Service</b> Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	<b>Purchase of Prior Service</b> Same as VRS Plan 1.	<b>Purchase of Prior Service</b> <b>Defined Benefit Component:</b> Same as VRS Plan 1.  <b>Defined Contribution Component:</b> Not applicable.

VRS issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2013-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

## 2. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be paid by the employer. For the year ended June 30, 2012, the City, Schools and PAC have paid their member contributions. In addition, the City, Schools and the PAC are required to contribute the remaining amounts necessary to fund

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2014

its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The contribution rates for the fiscal year ended June 30, 2014 were 9.13%, 16.66% and 9.36% of covered annual payroll for the City, NNSS and PAC, respectively.

### 3. Annual Pension Cost

For the fiscal year ended June 30, 2014, the annual pension costs for VRS employees of \$3.0 million, \$25.8 million and \$0.2 million for the City, Schools and the PAC, respectively, were equal to the required and actual contributions.

The City and PAC: The annual required contributions were determined as part of the June 30, 2013 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2013 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.50% to 5.35% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an closed basis. The remaining amortization period at June 30, 2013, for the Unfunded Actuarial Accrued liability (UAAL) was 30 years.

Schools (Agent Multiple-Employer): The annual required contributions were determined as part of the June 30, 2013 actuarial valuation. The actuarial assumptions included (a) a rate of return on investment of 7.50%, (b) projected salary increases ranging from 3.50% to 5.60% per year, and (c) cost-of-living adjustment of 2.50%. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial values of the respective entities' assets are equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 20 years.

Schools (Single Employer): The annual required contributions for the single employer plan were determined as part of the June 30, 2013 actuarial valuation. The actuarial assumptions included (a) a rate of return on investment of 7.0% to 7.5% (b) projected annual cost-of-living adjustments of 2.50% for Plan 1 members and 2.25% for Plan 2 members and salary increases that range between 3.50% and 5.35% depending upon the

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

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member's service and classification. Liabilities were determined under the Entry Age Normal actuarial cost method. There is no unfunded actuarial accrued liability at June 30, 2013 but, if there is one in the future, it would be amortized as a level percentage of payroll on an open basis within a period of 30 years.

#### 4. Schedule of Funding Progress and Employer Contributions

Schedules of Funding Progress and Employer Contributions for both the agent multiple-employer plan and the single employer plan are combined for Schools and PAC are as follows:

	Fiscal year ending	Annual Pension Cost (APC)	Percentage of APC contributed	Net pension obligation
City	June 30, 2014	\$ 3,048,168	100.0%	-
	June 30, 2013	2,288,064	100.0%	-
	June 30, 2012	2,043,517	100.0%	-
Schools	June 30, 2014	25,801,090	100.0%	-
	June 30, 2013	25,624,173	100.0%	-
	June 30, 2012	17,536,019	100.0%	-
PAC	June 30, 2014	220,176	100.0%	-
	June 30, 2013	216,015	100.0%	-
	June 30, 2012	202,606	100.0%	-

#### Funding Progress

The City: As of June 30, 2013, the most recent actuarial valuation date, the plan was 116.81% funded. The actuarial liability for benefits was \$6,336,456 and the actuarial value of assets was \$7,401,440 resulting in an unfunded actuarial accrued liability of (\$1,064,984). The covered payroll (annual payroll of active employees covered by the plan) was \$28,142,660, and the ratio of the UAAL to the covered payroll was (3.8%).

PAC: As of June 30, 2013, the most recent actuarial valuation date, the plan was 87.01% funded. The actuarial accrued liability for benefits was \$5,968,818 and the actuarial value of assets was \$5,193,666 resulting in an unfunded actuarial accrued liability of (\$775,152). The covered payroll (annual payroll of active employees covered by the plan) was \$2,277,542, and the ratio of the UAAL to the covered payroll was 34%.

Schools: As of June 30, 2013, the most recent actuarial valuation date, the plan was 170% funded. The actuarial accrued liability for benefits was \$649,566 and the actuarial value of assets was \$1,103,067 resulting in an overfunded actuarial accrued liability of \$453,501. The covered payroll (annual payroll of active employees covered by the plan) was \$3,917,266 and the ratio of the UAAL to the covered payroll was (11.6%).

## **CITY OF NEWPORT NEWS, VIRGINIA**

### **Notes to Basic Financial Statements**

**June 30, 2014**

The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Potential effects of legal and contractual limitations are not explicitly incorporated in benefits for financial reporting purposes.

#### **(9) Other Postemployment Benefits (OPEB) Fund**

##### ***(a) City of Newport News Other Postemployment Fund***

###### **Plan Description**

The OPEB Fund provides medical benefits, insurance premium payments and dental insurance to City retirees who enroll in the programs offered. Schools retirees are not eligible for programs offered by the OPEB Fund and are offered different benefits through a separate fund established by Schools on their behalf. Once a retiree has withdrawn from the OPEB Fund by terminating coverage, they are not allowed to rejoin the plan. Benefits and contribution provisions are established by City Ordinance and may be amended only by the City Council. An actuarial service is employed to advise the City Council and the Retirement Board of the contributions necessary to fund the benefits.

For reporting purposes, the assets, income and expenses of the OPEB fund were included with the Pension Fund from FY 2000 – 2007. However, the calculation of the net pension obligation for pension excluded OPEB contributions.

The City offers health and dental coverage to eligible retirees and their eligible dependents through the OPEB plan. Effective July 1, 2005, the City's contribution to retirees' medical insurance premiums was capped and annually adjusted with a CPI-based formula. Retirees must have at least 10 years of service to receive a premium contribution. Those having 25 years or more receive the maximum contribution. At age 65, the retiree's coverage converts to a Medicare Advantage insurance program. City participants who were eligible to retire before July 1, 2005 are provided a life insurance benefit of 50% of salary upon retirement. For participants not eligible to retire before July 1, 2005, the life insurance benefit is 50% of salary at retirement, and is reduced 20% per year after retirement, but not below \$10,000. The life insurance is provided at no cost to retirees.

Benefit provisions for the City are established and amended through the City Council. Since 1958, the City has allowed employees to continue their health, dental and vision coverage after retirement.

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

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The actual cost to the fund for retirees' health care for the years ended June 30 is as follows:

	Health Insurance		Dental Insurance		Life Insurance	
	Participants	Costs	Participants	Costs	Participants	Costs
2014	1,786	\$ 7,682,357	1,408	\$ 507,588	1,771	\$ 368,590
2013	1,802	\$ 7,370,709	1,385	\$ 497,019	1,757	\$ 354,022
2012	2,762	\$ 8,444,597	1,379	\$ 499,626	1,716	\$ 346,257

Employees who leave City employment before meeting the age and service requirements to receive a pension are not eligible for postemployment benefits.

The OPEB Fund is a separate pension trust fund and is considered part of the City's financial reporting entity. The pension trust issues a publicly available financial report that includes financial statements and required information for the OPEB Fund.

### Contribution Required and Contributions Made

The City does not have a formal funding policy for the OPEB Fund and operates on a pay-as-you-go basis. The City makes monthly contributions to the OPEB Fund in amounts sufficient to pay all claims and expenses, which are not covered by the retiree contributions to the Fund for their portion of their insurance premiums.

Contributions by the City to the OPEB Fund totaling \$10.2 million, \$10.5 million and \$10.9 million were made during the years ended June 30, 2014, 2013 and 2012. The following table shows the components of the City's annual OPEB costs for the year, the amounts contributed to the Plan, and changes in the City's net OPEB obligation:

	2014	2013	2012
Annual Required Contribution	\$ 12,432,179	\$ 16,868,638	\$ 17,891,772
Interest on net OPEB Obligation	1,133,296	895,268	627,798
Adjustment to annual required contribution:	(1,735,035)	(1,343,192)	(924,117)
Annual OPEB Cost	11,830,440	16,420,714	17,595,453
Contributions made	(10,240,000)	(10,470,000)	(10,908,694)
Increase in net OPEB obligation	1,590,440	5,950,714	6,686,759
Net OPEB obligation at beginning of fiscal year	28,332,411	22,381,697	15,694,938
Net OPEB obligation at end of fiscal year	\$ 29,922,851	\$ 28,332,411	\$ 22,381,697

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligations were:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligations
June 30, 2014	\$ 11,830,440	86.56%	\$ 29,922,851
June 30, 2013	\$ 16,420,714	63.76%	\$ 28,332,411
June 30, 2012	\$ 17,595,453	62.00%	\$ 22,381,697

# CITY OF NEWPORT NEWS, VIRGINIA

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### Funded Status and Funding Progress

The funded status of the City's OPEB Fund (in millions) as of fiscal, 2014, 2013 and 2012 was as follows:

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Actuarial value of assets	\$ 25.1	\$ 20.5	\$ 15.6
Actuarial Accrued Liability (AAL)	176.0	172.5	216.9
Unfunded AAL (UAAL)	<u>\$ 150.9</u>	<u>\$ 152.0</u>	<u>\$ 201.3</u>
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Funded Ratio	14.0 %	12.0 %	7.0 %
Covered Payroll	\$ 109.8	\$ 115.1	\$ 113.6
UAAL as a percentage of covered payroll	137.4 %	132.2 %	177.2 %

The required Schedule of Funding Progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial liability for benefits over time. Potential effects of legal and contractual limitations are not explicitly incorporated in benefits for financial reporting purposes.

Analysis of the dollar amounts of actuarial valued assets, actuarial liability, and unfunded actuarial liability in isolation can be incomplete. Expressing actuarial valued assets as a percentage of the actuarial liability provides one indication of the Plan's funding status on a going concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future.

### Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the City and Plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the Plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued

## **CITY OF NEWPORT NEWS, VIRGINIA**

### **Notes to Basic Financial Statements**

June 30, 2014

liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial valuation date	July 1, 2014
Actuarial cost method	Projected Unit Credit
Amortization method	Level Dollar Closed
Remaining amortization period	26 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	4.00%
Rate of salary increases	3.00%
Ultimate rate of medical inflation (capped by employer policy)	1.33%
Inflation	2.80%

#### **(b) *City of Newport News Line of Duty Plan (LOD)***

##### **Plan Description**

The Line of Duty Plan (LOD) was established by the 2010 Appropriation Act of the Virginia General Assembly, and provides death and health, dental and vision insurance benefits for public safety employees who are injured in the line of duty. Although the benefit is administered by City, the State Comptroller determines the benefit eligibility. The Newport News LOD plan is a single-employer plan. Benefits and contribution provisions are established by City Council. An actuarial service is employed to advise City Council of the contributions necessary to fund the benefits.

The actual cost to the City was \$221,323 for the year ending June 30, 2014. Approximately 1,173 active employees are covered under the Plan, and 16 retired employees and spouses are currently receiving benefits.

##### **Contribution Required and Contributions Made**

The City does not have a formal funding policy for the LOD Plan and operates on a pay-as-you-go basis. The City pays all claims and expenses related to the LOD Plan when incurred.

The following table shows the components of the City's annual OPEB costs for the year, the amounts contributed to the Plan, and changes in the City's net OPEB obligation:

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2014

(in millions)	<b>2014</b>
Annual Required Contribution	\$ 1.127
Interest on net OPEB Obligation	0.035
Adjustment to annual required contribution:	<u>(0.051)</u>
Annual OPEB Cost	1.111
Contributions made	<u>(0.196)</u>
Increase in net OPEB obligation	0.915
Net OPEB obligation at beginning of fiscal year	<u>0.881</u>
Net OPEB obligation at end of fiscal year	<u><u>1.796</u></u>

### Funded Status and Funding Progress

The funded status of the City's LOD Plan (in millions) as of fiscal 2014 is as follows:

	<b>2014</b>
Actuarial value of assets	\$ 0
Actuarial Accrued Liability (AAL)	<u>8.7</u>
Unfunded AAL (UAAL)	<u><u>8.7</u></u>

	<b>2014</b>
Funded Ratio	<u>0.0 %</u>
Covered Payroll	\$ 55.4
UAAL as a percentage of covered payroll	15.7 %

### Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the City and Plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the Plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in the short term. Significant methods and assumptions were as follows:

Actuarial valuation date	July 1, 2014
Actuarial cost method	Projected Unit Credit
Amortization method	Level Dollar Closed
Remaining amortization period	30 years
Asset valuation method	Market Value

## **CITY OF NEWPORT NEWS, VIRGINIA**

### **Notes to Basic Financial Statements**

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#### **Actuarial assumptions:**

Investment rate of return	4.00%
Rate of salary increases	3.00%
Ultimate rate of medical inflation	5.00%
Inflation	2.80%

#### **(c) *Newport News Schools System (Schools)***

##### **Plan Description**

In FY 2000, an OPEB fund was established to accumulate assets to pay for other postemployment benefits. The fund was administered by the City to provide health, dental and life insurance benefits for City and School Board retirees. During FY 2010, the School Board established a separate Trust Fund apart from the City and all assets belonging to the School Board were transferred to this new fund. The plan is a single-employer plan. Benefits and contribution provisions are established by the School Board and may be amended only by the School Board. An actuarial service is employed to advise the School Board of the contributions necessary to fund the benefits.

The School Board provides health and dental insurance for their retirees under the School's group plans. The School Board annually determines the retiree's contribution to participate in the medical plans. The total contribution is based on the active premium rates. The retiree's portion of the active rate is based on the retiree's accumulated sick leave at retirement. Retirees with maximum accumulated sick leave will pay what an active employee would pay. Retirees with minimal accumulations would pay most of the total active premium rate.

Approximately 259 Schools retirees who are grandfathered participate in the City OPEB Fund's sponsored life insurance coverage which is paid by Schools. These retirees have elected supplemental coverage under the City's OPEB fund.

The OPEB Trust Fund does not issue a separate report.

##### **Contribution Required and Contributions Made**

OPEB funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. A level percentage of payroll amounts, with a 27-year amortization period is used for purposes of computing the minimum accrual in accordance with GAAP. The projected unit credit method is used for cost calculations.

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2014

Contributions to normal costs totaling \$1.1 million were made during the year ended June 30, 2014. The School Board's annual OPEB cost for the past three fiscal years is as follows:

(in millions)	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual Required Contribution	\$ 8.8	\$ 8.7	\$ 7.4
Interest on net OPEB Obligation	2.2	2.3	2.1
Adjustment to annual required contribution:	<u>(2.5)</u>	<u>(2.6)</u>	<u>(2.4)</u>
Annual OPEB Cost	8.5	8.4	7.1
Contributions made	<u>(8.6)</u>	<u>(8.6)</u>	<u>(5.9)</u>
Increase in net OPEB obligation	(0.1)	(0.2)	1.2
Net OPEB obligation at beginning of fiscal year	<u>28.8</u>	<u>29.0</u>	<u>27.8</u>
Net OPEB obligation at end of fiscal year	<u><u>\$ 28.7</u></u>	<u><u>\$ 28.8</u></u>	<u><u>\$ 29.0</u></u>

### Funded Status and Funding Progress

The funded status of the Schools plan as of June 30, 2014 was as follows:

<i>(in millions)</i>	
Actuarial value of assets	\$ 13.8
Actuarial Accrued Liability (AAL)	<u>104.3</u>
Unfunded AAL (UAAL)	<u><u>\$ 90.5</u></u>
 Funded ratio	 13.2%
Covered Payroll	\$ 119.8
UAAL as a percentage of covered payroll	75.5%

The required Schedule of Funding Progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial liability for benefits over time. Potential effects of legal and contractual limitations are not explicitly incorporated in benefits for financial reporting purposes.

Analysis of the dollar amounts of actuarial valued assets, actuarial liability, and unfunded actuarial liability in isolation can be incomplete. Expressing actuarial valued assets as a percentage of the actuarial liability provides one indication of the Plan's funding status on a going concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater the percentage, the stronger the system.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

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#### Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the School Board and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial valuation date	July 1, 2013
Actuarial cost method	Projected Unit Credit
Amortization method	Level Dollar Closed
Amortization period	27 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	7.50%
Rate of salary increases	NA%
Ultimate rate of medical inflation	5.00%

#### (d) *Peninsula Airport Commission (PAC)*

##### Plan Description

In addition to providing the pension benefits described in Note 16, the Commission provides postemployment health care benefits (OPEB) for retired employees through a single-employer defined benefit plan. The benefits, benefit levels, employee contributions and employer contributions are governed by the Commission and can be amended by the Commission through its personnel manual and employment contracts. The OPEB plan does not issue a publicly available report.

The Commission provides postemployment health care benefits to its retirees. Employees hired prior to July 1, 2010 are eligible to retire and receive postretirement medical benefits at the earlier of age 55 with at least five years of service or age 50 with 30 years of service. Employees hired on or after July 1, 2010 are eligible to retire and receive postretirement medical benefits at the earlier of age 60 with at least five years of service or when the employees' age plus service is greater than or equal to 90.

The Peninsula Airport Commission receives health coverage through the City of Newport News, Virginia which offers medical coverage to eligible retirees and their eligible dependents through Anthem KeyCare Plans, a Humana Plan and Delta Dental. Benefits

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

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include general inpatient and outpatient medical services, dental care and prescription drugs. Non-Medicare eligible retirees have a choice of three Anthem KeyCare Plans: a PPO Plan, a HMO Plan or a High-Deductible Health Plan with a health savings account. For those retirees eligible for Medicare, the Commission provides the benefits available through the Humana Plan reduced by any amounts payable by Medicare.

The valuation of postretirement medical benefits was based on the following census data as of July 1, 2013: 13 retirees, 6 spouses, and 48 active employees.

#### **Contribution Required and Contributions Made**

The City of Newport News provides to the Commission the medical and dental premiums for the year; the retirees contribute 75% of the premium if they have at least 5 years of service, 50% with ten years of service, and 25% with 15 or more years of service. The postretirement medical insurance benefits are currently funded on a pay-as-you-go basis. The Commission currently funds on a cash basis as benefits are paid. No assets have been segregated and restricted to provide postretirement benefits.

The Commission had an actuarial valuation performed for the plan as of July 1, 2013, to determine the funded status of the plan as of that date as well as the employer's annual required contribution (ARC) for the fiscal year ended June 30, 2014. The Commission's annual OPEB cost and liability are as follows:

Annual required contribution	\$ 372,545
Interest on net OPEB obligation	7,377
Less - contributions made in the form of retiree insurance premiums paid	(88,932)
Net OPEB obligation - beginning of year	<u>3,461,341</u>
Net OPEB obligation - end of year	<u>\$ 3,752,331</u>

Since the Commission operates on an unfunded pay-as-you-go basis, the net OPEB obligation is equal to the ARC less current year retiree premium payments and the plan is unfunded.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARCs of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, as follows, presents multi-year trend information that shows whether the

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

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actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### Funded Status and Funding Progress

The funded status of the Fund as of fiscal, 2013, 2010 and 2007 was as follows (in thousands):

	2013	2010	2007
Actuarial value of assets	\$ -	\$ -	\$ -
Actuarial Accrued Liability (AAL)	3,650.0	3,839.0	4,155.8
Unfunded AAL (UAAL)	<u>3,650.0</u>	<u>3,839.0</u>	<u>4,155.8</u>
	2013	2010	2007
Funded Ratio	- %	- %	- %
Covered Payroll	\$ 2,989.0	\$ 3,114.0	\$ 2,112.0
UAAL as a percentage of covered payroll	117.2 %	123.3 %	196.8 %

### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods assumptions used include techniques that are 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.

In the July 1, 2013, actuarial valuation, the actuarial accrued liability was determined based on the projected unit credit actuarial cost method. The actuarial assumptions included a 4.0% discount rate assuming that the plan is not funded and an initial annual healthcare cost trend rate of 4.50% over 15 years. Both rates include a 2.8% inflation assumption. The plan has no assets. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls over 30 years, assuming payroll growth is 3.0%.

## 10) Deferred Compensation Plans

### (a) 457 Deferred Compensation Plan – Traditional and Roth

Employees of the City, except those of Schools, may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Sec. 457 (Deferred Compensation

## **CITY OF NEWPORT NEWS, VIRGINIA**

### **Notes to Basic Financial Statements**

**June 30, 2014**

Plans With Respect to Service for State and Local Governments). Under the Traditional Plan, employees may elect to defer a portion of their salaries and postpone paying taxes on the deferred portion until those funds are withdrawn by the employee. The traditional deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency. Under the Roth Plan, employees may elect to defer a portion of their salaries on an after tax basis. Roth deferrals and associated earnings can be withdrawn tax free if certain criteria are met.

The deferred compensation plan is administered by an unrelated financial institution on behalf of the City. Investment options available to employees include common stock, corporate and government bonds, guaranteed interest contracts, or combinations thereof. All deferred compensation and income attributable to the investment of the deferred compensation amounts are held by the financial institution, until paid or made available to the employees or beneficiaries.

#### **(b) *Health Reimbursement Arrangement (HRA)***

All full-time employees of the City hired after March 1, 2010 (except Schools employees) are automatically enrolled in the HRA Plan adopted under the provision of the IRS Notice 2002-45 and Revenue Ruling 2002-41. Under the plan, the City contributes 3% of the average City salary into each employee's HRA account. For fiscal 2014, based on an average City salary of \$47,500, the City contributed \$1,425 per participant. For the year ended June 30, 2014, the City contributed a total of \$1,149,932 to the HRA accounts. The accumulated amounts are available to participants at retirement or at age 55, if terminated prior to reaching retirement eligibility. The Plan reimburses the participant, the participant's spouse, and dependents for insurance premiums or other medical payments expended for permissible benefits described under the plan. HRA participants cannot be members of the City's OPEB Fund.

The HRA is administered by an unrelated financial institution. Investments options are available to employees.

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# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

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### (11) Self Insurance

#### (a) Medical Benefits

The School Board is self-insured for medical benefits through funding from the General Fund for employees up to \$175,000, per employee per year. The City self-insures for medical benefits for its employees up to \$200,000 per employee per year whichever is less. Claims in excess of the limitation are covered by third-party insurance. Expenditures are charged to the fund to which the employees' payroll expenditure is charged at amounts that approximate what third-party insurers would have charged. The insurance coverage is substantially the same as in prior fiscal years.

Changes in the medical incurred but not reported amount during the fiscal years ended June 30, 2014 and 2013 for the City and the Public Schools were as follows:

	City		Public Schools	
	2014	2013	2014	2013
Claims payable at beginning of year	\$ 3,304,695	3,480,183	2,461,000	2,500,000
Claims and changes in estimates	33,026,174	34,300,245	27,961,633	26,623,085
Claim payments	(31,999,617)	(34,475,733)	(27,630,633)	(26,662,085)
Claims payable at end of year	<u>\$ 4,331,252</u>	<u>\$ 3,304,695</u>	<u>2,792,000</u>	<u>2,461,000</u>

#### (b) Workers' Compensation

The City self-insures for workers' compensation through the General Fund up to \$1,750,000 per claim. The School Board has discontinued excess insurance coverage, effective July 1, 2006. Expenditures are charged to the various departments at amounts that approximate what third-party insurers would have charged. Amounts due in future years on claims made as of June 30, 2014 are accounted for in the long-term liabilities. The following is a reconciliation of changes in workers' compensation claims payable for years ended June 30, 2014 and 2013 for the City and the Public Schools.

	City		Public Schools	
	2014	2013	2014	2013
Claims payable at beginning of year	\$ 10,769,830	11,316,334	1,914,500	2,064,500
Claims and changes in estimates	3,612,862	2,249,342	2,284,520	788,531
Claim payments	(2,939,596)	(2,795,846)	(1,297,930)	(938,531)
Claims payable at end of year	<u>\$ 11,443,096</u>	<u>10,769,830</u>	<u>2,901,090</u>	<u>1,914,500</u>

A loss analysis was conducted by Oliver Wyman Actuarial Consulting, Inc. on this fund. The total actuarially computed liability as of June 30, 2014 for the City and School Board was determined to be approximately \$11.4 million and \$2.9 million, respectively.

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2014

#### **(c) Other**

The City self-insures for automotive and general liability through the General Fund up to \$1 million per occurrence, which is included in accrued liabilities, and up to \$500,000 for each fire and property claim. The School Board insures for property losses with self-insured retention per occurrence of \$25,000 for basic, \$5,000 for floods, and \$25,000 for earthquakes. The School Board is self-insured for losses resulting from vehicular accidents of up to \$1,000,000. Claims in excess of the self-insured retention limitations are covered by third party insurance.

Included in the fund balances of the General Fund of the City and the School Board are reserved and designated fund balances related to self-insurance activities.

<b>Auto &amp; General Liability</b>	<b>City</b>	
	<b>2014</b>	<b>2013</b>
Claims payable at beginning of year	\$ 4,873,016	\$ 5,905,396
Claims and changes in estimates	1,290,388	(303,697)
Claim payments	(544,054)	(728,683)
Claims payable at end of year	<u>\$ 5,619,350</u>	<u>\$ 4,873,016</u>

The auto and general liability claims increased from \$4.9 million to \$5.6 million.

#### **(12) Contingent Liabilities**

##### **(a) Grants**

The City received grant funds, principally from the U.S. Government, for construction and various other programs. Expenditures from these grants are subject to audit by the grantor and the City is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the management of the City, no material refunds will be required as a result of expenditures disallowed by the grantors.

##### **(b) Litigation**

The City is involved in several lawsuits arising in the ordinary course of operations. The City is self-insured with respect to automotive liability, general liability, and property damage and workers' compensation. It is the opinion of City management, based on the advice of the City Attorney, that any losses incurred as a result of claims not included in accrued liabilities as of June 30, 2014, will not be material to the financial statements.

##### **(c) Encumbrances**

Encumbrance accounting, the recording of purchase orders, contracts, and other monetary commitments in order to reserve an applicable portion of an appropriation is used as an extension of formal budgetary control by the City. At June 30, 2014 the City had outstanding encumbrances as follows:

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2014

#### General fund

General government	\$ 862,495
Self insurance	361,436
Judicial	4,356
Public safety	3,497,660
Public works	1,360,155
Health and welfare	29,622
Parks, recreation and cultural	167,235
Community development	13,377
Total general fund	<u>\$ 6,296,336</u>

#### Bond fund

General government	\$ 33,806
Public safety	8,516,643
Public works	11,156,042
Parks, recreation and cultural	2,480,365
Community development	870,010
Total bond fund	<u>\$ 23,056,866</u>

#### Nonmajor governmental funds

General government	\$ 1,930,549
Judicial	498
Public safety	360,341
Public works	10,228,576
Health and welfare	4,750
Parks, recreation and cultural	990,765
Community development	<u>\$ 145,030</u>
Total nonmajor governmental funds	<u>\$ 13,660,509</u>
Total	<u><u>\$ 43,013,711</u></u>

### (13) Jointly Governed Organizations and Joint Ventures

#### (a) Hampton-Newport News Community Services Board (CSB)

The CSB operates as an agent for the cities of Hampton and Newport News in the establishment and operation of community mental health, mental retardation and substance abuse programs as provided for in Chapter 10 of Title 37.1 of the Code of Virginia. The CSB designates its own management and adopts its own budget. The operations are financed principally by state and federal funds. Separate financial statements are available from the CSB, 200 Medical Drive, Hampton, VA 23666.

#### (b) Hampton Roads Regional Jail Authority (HRRJA)

The HRRJA is a political subdivision of the Commonwealth of Virginia, created December 14, 1993, by the cities of Hampton, Newport News, Norfolk and Portsmouth. The HRRJA is governed by a twelve-member board, consisting of three members from each city. The purpose of the intergovernmental authority is to develop, construct, equip, maintain and operate a regional jail. No one locality contributes more than

## **CITY OF NEWPORT NEWS, VIRGINIA**

### **Notes to Basic Financial Statements**

June 30, 2014

50% of the HRRJA funding or has responsibility over its operations. Separate financial statements are available from the Hampton Roads Regional Jail Authority, 2690 Elmhurst Lane, Portsmouth, Virginia 23701-2745.

#### **(c) *Hampton Roads Economic Development Alliance (HREDA)***

The HREDA is a non-profit, public-private partnership that aggressively markets Virginia's Hampton Roads region as the primary region of choice for economic investment and business expansion. All HREDA business attraction initiatives and activities are designed to promote the jurisdictions of Chesapeake, Franklin, Gloucester, Hampton, Isle of Wight County, James City County, Newport News, Norfolk, Poquoson, Portsmouth, Southampton County, Suffolk, Virginia Beach, Williamsburg and York County, Virginia. The business affairs are managed by a Board of not less than fifty or more than 300 Directors. The City's Mayor and the Director of E/IDA are board members. HREDA receives funding from both private and public entities. Newport News contributed \$161,685 in FY 14. Separate financial statements are available from the HREDA, 500 Main Street, Suite 1300, Norfolk, Virginia 23510.

#### **(14) Deficit Fund Balance**

The City of Newport News has an accumulated deficit of \$279 and \$672,617 in the Nonmajor Governmental Funds for the Animal Shelter fund and Wastewater fund, respectively, as of June 30, 2014. The Animal Shelter fund deficit is the result of utilizing temporary financing to fund expenditures for the initial opening. The Wastewater fund deficit is the result of a fiscal year 2013 deficit fund balance. During fiscal year 2014, revenues for the Wastewater fund exceeded expenditures thus decreasing the prior year deficit balance. These deficits do not indicate that the Animal Shelter or the Wastewater funds are facing financial difficulties.

#### **(15) Subsequent Events**

Subsequent events have been analyzed through (date) noting the following:

In July 2014, the City of Newport News appropriated \$23.96 million for construction of a replacement elementary school on the current site of Magruder Primary. This appropriation included the reallocation of \$3.24 million of capital project funds previously appropriated by the City to the School Board for other projects but were not yet obligated by purchase orders for their original purposes. Later in July 2014, the School Board issued a contract purchase order of \$22.82 million for the construction of this school.

#### **E/IDA**

**(a)** On July 22, 2014, the E/IDA exercised its purchase option under the Apprentice School garage lease to purchase the parking facilities located at 150 33<sup>rd</sup> Street for \$12,759,580. The E/IDA financed the purchase with a \$12.7 million taxable revenue bond through Towne Bank.

**(b)** On September 4, 2014, the E/IDA purchased the properties located at 15401, 15407 and 15411 Warwick Boulevard in the amount of \$928,775 to continue the Upper Warwick boulevard acquisition for future development and revitalization.

## **CITY OF NEWPORT NEWS, VIRGINIA**

### **Notes to Basic Financial Statements**

**June 30, 2014**

**(c)** The E/IDA issued Industrial Revenue Bonds for the benefit of Eagle Land II, LLC to facilitate the financing of the acquisition, renovation and equipping of an approximately 196,232 square foot facility located at 7505 Warwick Boulevard which will be leased by its affiliate, Eagle Aviation Technologies, LLC in the amount of \$5,500,000.

#### **Public Schools**

In August 2014, print shop equipment with a value of \$663,000 was delivered and purchased with a five-year capital lease. Sixty monthly payments of \$12,460 each commenced October 1, 2014 with the final payment due on September 1, 2019. The nominal interest rate is 4.8%.

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**CITY OF NEWPORT NEWS, VIRGINIA**  
Required Supplementary Information  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual (Budget Basis)  
Year ended June 30, 2014

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Revenues from local sources:				
General property taxes:				
Real property taxes	\$ 166,336,788	166,336,788	168,511,919	2,175,131
Real and personal public service corporation property taxes	5,515,926	5,515,926	6,393,467	877,541
Personal property taxes	51,828,500	51,828,500	50,520,834	(1,307,666)
Machinery and tools taxes	17,700,000	17,700,000	19,018,439	1,318,439
Penalties and interest	997,000	997,000	1,085,819	88,819
Total general property taxes	<u>242,378,214</u>	<u>242,378,214</u>	<u>245,530,478</u>	<u>3,152,264</u>
Other local taxes:				
E-911 service revenue	660,163	660,163	637,060	(23,103)
Telecom sales taxes	12,000,000	12,000,000	11,697,528	(302,472)
Local sales and use taxes	22,714,167	22,714,167	22,426,753	(287,414)
Consumers' utility taxes	6,400,000	6,400,000	6,279,595	(120,405)
Consumption tax	650,000	650,000	709,174	59,174
Business license taxes	16,115,000	16,115,000	15,750,751	(364,249)
Rental car taxes	1,208,000	1,208,000	1,041,657	(166,343)
Motor vehicle license	3,957,000	3,957,000	4,103,933	146,933
Bank stock taxes	845,000	845,000	675,657	(169,343)
Taxes on recordation and wills	1,375,000	1,375,000	1,265,779	(109,221)
Tobacco taxes	5,200,000	5,200,000	5,102,091	(97,909)
Hotel and motel room taxes	3,315,000	3,315,000	3,178,730	(136,270)
Restaurant food taxes	21,918,286	21,918,286	22,873,051	954,765
Tourism zone taxes	314,334	314,334	11,032	(303,302)
Amusement taxes	682,946	682,946	665,301	(17,645)
Total other local taxes	<u>97,354,896</u>	<u>97,354,896</u>	<u>96,418,092</u>	<u>(936,804)</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	58,000	58,000	49,923	(8,077)
Permits and other licenses	3,029,067	3,029,067	3,383,566	354,499
Total permits, privilege fees, and regulatory licenses	<u>3,087,067</u>	<u>3,087,067</u>	<u>3,433,489</u>	<u>346,422</u>
Fines and forfeitures	<u>2,721,751</u>	<u>2,721,751</u>	<u>2,598,677</u>	<u>(123,074)</u>
Revenue from use of money and property:				
Revenue from use of money	392,597	392,597	377,534	(15,063)
Revenue from use of property	1,890,899	1,890,899	1,719,797	(171,102)
Total revenue from use of money and property	<u>2,283,496</u>	<u>2,283,496</u>	<u>2,097,331</u>	<u>(186,165)</u>
Charges for services:				
Court costs	1,038,097	1,038,097	964,036	(74,061)
Law enforcement and traffic control	72,500	72,500	94,857	22,357
Fire and rescue services	3,415,000	3,415,000	4,216,468	801,468
Information Technology	1,459,000	1,459,000	1,459,726	726
Parks and recreation	7,551,588	7,551,588	6,531,118	(1,020,470)
Cultural enrichment	173,361	173,361	121,058	(52,303)
Self-insurance premiums	2,000,527	2,000,527	2,046,308	45,781
Library	65,000	65,000	66,118	1,118
Planning and community development	4,700	4,700	3,504	(1,196)
Indirect costs	2,708,979	2,708,979	2,708,979	-
Animal services	41,514	41,514	38,927	(2,587)
Applied research center	527,611	527,611	322,626	(204,985)
Total charges for services	<u>\$ 19,057,877</u>	<u>19,057,877</u>	<u>18,573,725</u>	<u>(484,152)</u>

**CITY OF NEWPORT NEWS, VIRGINIA**  
Required Supplementary Information  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual (Budget Basis)  
Year ended June 30, 2014

	<b>Original budget</b>	<b>Amended budget</b>	<b>Actual</b>	<b>Variance</b>
Recovered costs:				
Health department	\$ 26,039	26,039	33,487	7,448
Juvenile detention home	3,647,565	3,647,565	3,906,653	259,088
City farm	914,000	914,000	846,005	(67,995)
City jail	1,115,001	1,115,001	1,112,325	(2,676)
Sewer assessments - debt service	14,500	14,500	152,866	138,366
Total recovered costs	5,717,105	5,717,105	6,051,336	334,231
Miscellaneous revenue:				
Payments in lieu of taxes	2,399,653	2,399,653	2,365,621	(34,032)
Miscellaneous	881,034	881,034	1,178,772	297,738
Total miscellaneous revenues	3,280,687	3,280,687	3,544,393	263,706
Total revenues from local sources	375,881,093	375,881,093	378,247,521	2,366,428
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' taxes	48,057	48,057	71,360	23,303
Mobile home titling taxes	50,000	50,000	60,009	10,009
Tax on deeds	250,000	250,000	296,731	46,731
State rebate – recording tax	416,588	416,588	461,841	45,253
DCJP grants for law enforcement	8,742,111	8,742,111	8,742,112	1
Total noncategorical aid	9,506,756	9,506,756	9,632,053	125,297
Shared expenses:				
Technology trust fund	-	78,867	44,125	(34,742)
Commonwealth's Attorney	1,690,541	1,690,541	1,746,634	56,093
Sheriff	6,809,687	6,809,687	7,275,295	465,608
Commissioner of the Revenue	372,126	372,126	377,409	5,283
Treasurer	342,251	342,251	273,854	(68,397)
Registrar/electoral board	55,418	55,418	57,897	2,479
Total shared expenses	9,270,023	9,348,890	9,775,214	426,324
Categorical aid:				
Welfare	22,456,229	22,456,229	22,619,266	163,037
Emergency medical service funds	125,000	125,000	-	(125,000)
Library	166,764	166,764	170,922	4,158
Other	-	-	19,321	19,321
Total categorical state aid	22,747,993	22,747,993	22,809,509	61,516
Total revenue from the Commonwealth	41,524,772	41,603,639	42,216,776	613,137
Other financing sources:				
Transfers from other funds	10,141,000	10,141,000	10,141,000	-
Total revenues	\$ 427,546,865	427,625,732	430,605,297	2,979,565

**CITY OF NEWPORT NEWS, VIRGINIA**  
Required Supplementary Information  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual (Budget Basis)  
Year ended June 30, 2014

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures:				
General government administration:				
Legislative:				
City Council	\$ 275,437	275,437	265,601	9,836
City Clerk	308,453	308,453	324,707	(16,254)
Total legislative	583,890	583,890	590,308	(6,418)
General and financial administration:				
City Manager	1,414,421	1,414,421	1,376,264	38,157
Human resources	1,139,165	1,139,165	1,059,047	80,118
Medical services	61,661	61,661	62,814	(1,153)
City Attorney	1,638,667	1,638,667	1,557,843	80,824
Video production service	444,551	444,551	411,364	33,187
Internal Auditor	503,168	503,168	512,550	(9,382)
Commissioner of the Revenue	2,468,178	2,468,178	2,263,047	205,131
Real estate assessor	1,595,510	1,595,510	1,544,616	50,894
City treasurer	2,060,104	2,060,104	2,053,134	6,970
Finance	1,195,485	1,195,485	1,123,728	71,757
Budget and evaluation	692,673	692,673	480,152	212,521
Auto self-insurance	1,382,800	1,382,800	1,295,439	87,361
General liability self-insurance	1,540,000	1,540,000	1,591,751	(51,751)
Workers' compensation	3,144,800	3,144,800	3,699,539	(554,739)
Purchasing	1,349,934	1,349,934	1,215,378	134,556
Information technology	7,948,157	7,948,157	7,925,136	23,021
Total general and financial administration	28,579,274	28,579,274	28,171,802	407,472
Board of elections - Registrar	444,732	444,732	438,934	5,798
Nondepartmental:				
Appointed boards	103,273	103,273	80,568	22,705
Community support	2,264,989	2,264,989	2,250,687	14,302
Contract community agencies	6,822,897	6,822,897	6,815,626	7,271
City development	30,729,424	30,729,424	29,172,033	1,557,391
Contractual services	1,746,273	1,746,273	1,634,405	111,868
Internal services	367,000	367,000	250,159	116,841
Machinery and equipment	686,000	686,000	584,277	101,723
Strategic priorities	1,820,500	1,820,500	1,273,631	546,869
Street lighting	850,043	850,043	269,782	580,261
Other	5,201,721	5,201,721	6,697,306	(1,495,585)
Total nondepartmental	50,592,120	50,592,120	49,028,474	1,563,646
Total general government administration	80,200,016	80,200,016	78,229,518	1,970,498
Judicial administration:				
Courts:				
Circuit courts	389,147	389,147	385,627	3,520
District courts	171,780	171,780	112,157	59,623
Office of the Magistrate	243,890	243,890	233,786	10,104
Juvenile/domestic relations court	43,161	43,161	62,502	(19,341)
Clerk of the circuit court	1,399,827	1,478,694	1,427,313	51,381
Court services	485,441	485,441	436,190	49,251
Total courts	2,733,246	2,812,113	2,657,575	154,538
Commonwealth's Attorney	3,487,425	3,487,425	3,470,092	17,333
Total judicial administration	\$ 6,220,671	6,299,538	6,127,667	171,871

**CITY OF NEWPORT NEWS, VIRGINIA**  
Required Supplementary Information  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual (Budget Basis)  
Year ended June 30, 2014

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 41,664,423	41,664,423	41,481,780	182,643
Emergency communications	440,632	440,632	291,731	148,901
Total law enforcement and traffic control	42,105,055	42,105,055	41,773,511	331,544
Fire and rescue services:				
Fire department	27,462,418	27,462,418	27,625,077	(162,659)
Ambulance and rescue service	2,006,257	2,006,257	2,142,501	(136,244)
Total fire and rescue services	29,468,675	29,468,675	29,767,578	(298,903)
Correction and detention:				
Sheriff	18,413,206	18,413,206	18,895,163	(481,957)
Adult corrections	4,143,111	4,143,111	3,903,436	239,675
Juvenile detention	7,031,703	7,031,703	7,193,535	(161,832)
Total correction and detention	29,588,020	29,588,020	29,992,134	(404,114)
Inspection – codes compliance	2,699,478	2,699,478	2,628,730	70,748
Total public safety	103,861,228	103,861,228	104,161,953	(300,725)
Public works:				
Engineering:				
Administration	290,692	290,692	33,987	256,705
Civil services	618,728	618,728	608,118	10,610
Facilities engineering	-	-	15,562	(15,562)
Technical support	650,806	650,806	432,932	217,874
Site & subdivision services	955,615	955,615	1,015,740	(60,125)
Environmental services	461,316	461,316	420,118	41,198
Transportation services	920,395	920,395	245,697	674,698
Total engineering	3,897,552	3,897,552	2,772,154	1,125,398
Public works administration	135,898	135,898	586,163	(450,265)
Maintenance of highways, streets, bridges, and sidewalks	251,095	251,095	1,373,420	(1,122,325)
Maintenance of general buildings and grounds	8,269,409	8,269,409	7,986,671	282,738
Total public works	12,553,954	12,553,954	12,718,408	(164,454)
Health and welfare:				
Health -				
Medical services	3,654,229	3,654,229	3,635,482	18,747
Welfare:				
Social services administration	8,481,800	8,481,800	7,830,501	651,299
Financial services	6,789,306	6,789,306	5,764,017	1,025,289
Social work services	11,894,778	11,894,778	11,646,349	248,429
Healthy families	1,202,615	1,202,615	1,342,993	(140,378)
Employment service program	2,083,741	2,083,741	1,820,790	262,951
CSA administration	414,997	414,997	348,879	66,118
Fuel assistance	35,753	35,753	26,565	9,188
Homeless family services	300,147	300,147	291,582	8,565
Cooperative extension	192,753	192,753	180,610	12,143
Total welfare	31,395,890	31,395,890	29,252,286	2,143,604
Total health and welfare	\$ 35,050,119	35,050,119	32,887,768	2,162,351

**CITY OF NEWPORT NEWS, VIRGINIA**  
Required Supplementary Information  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual (Budget Basis)  
Year ended June 30, 2014

	Original budget	Amended budget	Actual	Variance
Parks, recreation and cultural:				
Parks and recreation:				
Administration	\$ 6,042,690	6,042,690	5,825,319	217,371
Recreation division	2,703,506	2,703,506	2,630,864	72,642
Parks division	3,034,258	3,034,258	3,639,990	(605,732)
Recreation classes	4,797,415	4,797,415	4,780,958	16,457
Golf course	1,823,400	1,823,400	1,885,841	(62,441)
Leeward Marina	284,000	284,000	251,622	32,378
Festival support	188,743	188,743	198,281	(9,538)
Tourism, promotion and development	1,402,100	1,402,100	1,327,644	74,456
Animal services	802,476	802,476	775,905	26,571
Total parks and recreation	21,078,588	21,078,588	21,316,424	(237,836)
Cultural enrichment – Museum	1,052,000	1,052,000	992,017	59,983
Library	4,412,822	4,412,822	4,229,938	182,884
Total parks, recreation and cultural	26,543,410	26,543,410	26,538,379	5,031
Community development -				
Planning and community development:				
Development	1,144,978	1,144,978	1,151,297	(6,319)
Planning	991,133	991,133	1,001,386	(10,253)
Economic development	458,235	458,235	389,527	68,708
Customer Service-311 Call Center	2,348,652	2,348,652	3,174,016	(825,364)
Total community development	4,942,998	4,942,998	5,716,226	(773,228)
Education -				
General fund transfer to Public Schools	115,300,000	115,300,000	115,276,090	23,910
Capital projects transfer to Public Schools	1,100,000	1,100,000	1,100,000	-
Total educations	116,400,000	116,400,000	116,376,090	23,910
Transfers to other funds:				
Debt service	35,820,191	35,820,191	35,006,648	813,543
Capital projects	4,286,246	4,600,246	11,350,246	(6,750,000)
Other	1,668,032	1,668,032	1,256,846	411,186
Total transfers to other funds	41,774,469	42,088,469	47,613,740	(5,525,271)
Total expenditures and transfers to other funds	\$ 427,546,865	427,939,732	430,369,749	(2,430,017)
Excess (deficiency) of revenues over (under) expenditures	-	(314,000)	235,548	549,548
Less encumbrances outstanding at June 30, 2013 expended or canceled at June 30, 2014			(3,008,409)	
Add encumbrances outstanding at June 30, 2014			6,296,336	
FY 2014 surplus			3,523,475	
Fund balance at beginning of year			93,719,730	
Fund balance at end of year			\$ 97,243,205	

See accompanying notes to required supplementary information

**CITY OF NEWPORT NEWS, VIRGINIA**  
Required Supplementary Information  
Schedule of Funding Progress (unaudited)  
Year ended June 30, 2014

**Newport News Employees' Retirement Fund (in millions):**

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2014	\$ 788	\$ 1,216	\$ (428)	65%	\$ 124	-345.2%
June 30, 2013	744	1,180	(436)	63%	130	-335.4%
June 30, 2012	680	1,176	(496)	58%	249	-199.2%
June 30, 2011	641	1,145	(504)	56%	262	-192.4%
June 30, 2010	638	1,110	(472)	57%	283	-166.8%
June 30, 2009	711	1,115	(404)	64%	314	-128.7%
June 30, 2008	772	1,030	(258)	75%	314	-82.2%

**Newport News Retirement Plan Administered by the Virginia Retirement System (in thousands):**

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2013	7,401	6,336	1,065	117%	28,143	3.8%
June 30, 2012	3,758	3,478	280	108%	21,198	1.3%
June 30, 2011	1,549	2,263	(714)	68%	13,365	-5.3%
June 30, 2010	95	0.019	95	500000%	3,978	2.4%

**Newport News Employees' OPEB Fund (in millions):**

	Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
City	June 30, 2014	\$ 25	\$ 176	\$ (151)	14%	\$ 110	-137.4%
City	June 30, 2013	21	173	(152)	12%	115	-132.2%
City	June 30, 2012	16	217	(201)	7%	114	-177.2%
City	June 30, 2011	14	232	(218)	6%	119	-183.7%
City	June 30, 2010	10	237	(227)	4%	125	-181.7%
City	June 30, 2009	6	215	(209)	3%	136	-153.8%
NNSS	June 30, 2009	3	180	(177)	2%	184	-96.2%
	Total	\$ 9	\$ 395	\$ (386)	2%	\$ 320	-120.6%

**Newport News Line of Duty Plan (in thousands):**

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
July 1, 2014	\$ -	\$ 8,686	\$ (8,686)	0%	\$ 55,351	-15.7%
July 1, 2013	-	8,464	(8,464)	0%	53,508	-15.8%
July 1, 2012	-	7,703	(7,703)	0%	51,950	-14.8%

**CITY OF NEWPORT NEWS, VIRGINIA**  
Required Supplementary Information  
Schedule of Funding Progress (unaudited)  
Year ended June 30, 2014

**Peninsula Airport Commission (PAC) Retirement (in thousands):**

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2013	\$ 5,194	\$ 5,969	\$ (775)	87%	\$ 2,278	-34.0%
June 30, 2012	4,922	6,042	(1,120)	81%	2,332	-48.0%
June 30, 2011	4,804	5,775	(971)	83%	2,553	-38.0%
June 30, 2010	4,545	5,397	(852)	84%	2,319	-36.7%
June 30, 2009	4,410	4,933	(523)	89%	2,095	-25.0%

**Peninsula Airport Commission (PAC) OPEB Fund (in thousands):**

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
July 1, 2013	\$ -	\$ 3,649,745	\$ (3,649,745)	0%	\$ 2,989,000	-122.1%
July 1, 2010	-	3,839,014	(3,839,014)	0%	3,114,372	-123.3%
July 1, 2007	-	4,155,776	(4,155,776)	0%	2,112,183	-196.8%

**\*Newport News School System (NNSS)**

**Single Employer Plan Administered by the Virginia Retirement System**

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
July 30, 2013	\$ 1,103	\$ 650	\$ 453	170%	\$ 3,917	-11.6%
July 30, 2012	597	366	231	163%	2,812	-8.2%
July 30, 2011	285	210	75	136%	1,849	-4.1%
July 30, 2010	79	16	63	494%	983	-6.4%

**\*\*Newport News School System (NNSS) OPEB Fund (in millions):**

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
06/30/2014	\$ 14	\$ 104	\$ (90)	13%	\$ 120	-75.2%
06/30/2013	11	101	(90)	11%	129	-70.0%
06/30/2012	9	84	(75)	10%	137	-54.9%
06/30/2011	7	78	(71)	9%	147	-48.3%
06/30/2010	3	133	(130)	2%	181	-71.8%

\*\*Beginning July 1, 2009, NNSS OPEB Fund separated from the City.

**CITY OF NEWPORT NEWS, VIRGINIA**  
Required Supplementary Information  
Employees' Retirement Fund  
Schedule of Employer Contributions (Unaudited)  
(in millions)  
Year ended June 30, 2014

**Newport News Employees' Retirement Fund (in millions):**

<b>Fiscal year end</b>	<b>Annual required contribution</b>	<b>Actual contribution</b>	<b>Percentage contributed</b>
2014	\$ 40.6	\$ 35.6	88%
* 2013	56.8	37.0	65%
2012	55.0	32.8	60%
2011	56.7	27.4	48%
2010	41.0	21.2	52%
2009	40.5	19.7	49%
** 2008	38.0	16.4	43%
2007	51.1	23.3	46%
2006	42.2	19.2	45%
2005	35.5	13.6	38%
2004	27.9	12.3	44%
2003	15.9	11.7	73%
2002	11.3	11.3	100%
2001	10.6	10.6	100%

**Newport News Employees' OPEB Fund (in millions):**

<b>Fiscal year end</b>		<b>Annual required contribution</b>	<b>Actual contribution</b>	<b>Percentage contributed</b>
2014	City	\$ 12.4	\$ 10.2	82%
2013	City	16.9	10.5	62%
2012	City	17.9	10.9	61%
2011	City	18.3	11.8	64%
2010	City	13.4	12.1	90%
2009	City	12.5	9.2	74%
	NNSS	14.9	3.2	21%

\* Beginning January 1, 2013, City employees began contributing 5% of their salary.

\*\* Beginning June 30, 2008, pension and OPEB disclosures are reported separately.

## **CITY OF NEWPORT NEWS, VIRGINIA**

### **Notes to Required Supplementary Information**

Year ended June 30, 2014

#### **(1) Budgetary Data**

The budgetary data reflected in the required supplementary information was established by the City using the following procedures:

On or before April 1, management submits to the City Council of the City proposed operating budgets that include proposed expenditures and other financing uses and the means of financing them.

A public hearing on the budget is held after a synopsis of the budget is published in a local newspaper of general circulation. An appropriation ordinance must be adopted by the City Council by June 15.

The City may amend the budget or make transfers between functions and budgetary line items without City Council approval. However, the City may not make transfers or expend any sum of money in excess of City Council appropriations, at the fund level, without the consent of the City Council. The legal level of budgetary control for the General Fund is the fund level; however, management control is exercised over the budget at the budgetary line item level. Appropriations, except for encumbrances and committed or assigned fund balances, lapse at year-end. Encumbrances and committed or assigned fund balances outstanding at year-end are re-appropriated in the succeeding year. There were supplemental appropriations made during 2014 for the following reasons: (1) grant matching, (2) funding to meet the increase in operating expenses, (3) capital improvements not included in the Capital Improvements Plan, and (4) increases in school funding.

#### **(2) Legally Adopted Budgets**

Formal budgetary integration is employed as a management control device during the year for the General Fund, the Debt Service Fund, the Enterprise Funds and the Internal Service Fund. Annual operating budgets are adopted by ordinances passed by City Council for the General Fund; Debt Service Fund; Internal Service Fund; the following Enterprise Funds and Component Units: Public Utility, Parking Authority, E/IDA; the following Special Revenue Funds: Street Maintenance, Economic Development, Law Library, Stormwater, Solid Waste, and Wastewater. City Council makes an annual appropriation to the School Board but is prohibited from exercising any control over specific expenditures of School Board operating funds.

Annual operating budgets are not adopted for Special Revenue Funds, except those funds identified above. Program budgets for these funds are approved by executive departments on a basis consistent with the related grant applications. Project and program budgets are utilized in the Capital Projects Funds where appropriations remain open and carry over to succeeding years.

## **CITY OF NEWPORT NEWS, VIRGINIA**

### **Notes to Required Supplementary Information**

**Year ended June 30, 2014**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP), except that encumbrances are included as budgetary expenditures. Expenditures may not exceed appropriations at the function level, the legal level of control, as defined in the budget ordinance. Management can transfer unencumbered appropriation balances, or portions thereof, within a function. Transfers within the School Operating Fund are controlled by the School Board.

Unencumbered appropriations lapse at the end of the fiscal year for the General, School Operating, Street Maintenance, Economic Development, Law Library and Debt Service Funds.

#### **(3) Encumbrances**

Encumbrances outstanding at year-end represent the estimated amount of the expenditures required to complete contracts, purchase orders and commitments-in-process at year-end.

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**CITY OF NEWPORT NEWS, VIRGINIA**

Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2014

	Special Revenue						
Assets	Community development	Street maintenance	Economic development	Law library	Stormwater	Solid waste	Wastewater
Cash and cash equivalents	\$ -	-	1,385,394	188,621	4,313,822	406,801	-
Restricted cash	-	-	-	-	-	-	-
Accounts receivable, net	-	-	-	764	636,289	1,241,182	800,771
Receivable from other governments:							
Local	-	-	-	-	-	-	-
Virginia	48,653	-	-	-	-	-	-
Federal	-	-	-	-	-	-	-
Advances to other funds	-	-	-	-	-	-	-
Total assets	\$ 48,653	-	1,385,394	189,385	4,950,111	1,647,983	800,771
Liabilities							
Accounts payable	\$ 13,838	-	2,898	5,402	248,768	388,505	210,347
Accrued liabilities	-	-	-	-	54,269	23,393	65,018
Unearned revenues	-	-	-	-	-	39,110	-
Advances from other funds	-	-	-	-	-	-	-
Advances from major governmental funds	34,815	-	-	-	-	-	1,198,023
Total liabilities	\$ 48,653	-	2,898	5,402	303,037	451,008	1,473,388
Deferred Inflows of Resources							
Unavailable revenue-stormwater fees	\$ -	-	-	-	495,591	-	-
Fund Balances							
Restricted	-	-	-	25	4,151,483	1,196,975	(672,617)
Committed	-	-	1,382,496	183,958	-	-	-
Total fund balances	\$ -	-	1,382,496	183,983	4,151,483	1,196,975	(672,617)
Total liabilities, deferred inflows and fund balances	\$ 48,653	-	1,385,394	189,385	4,950,111	1,647,983	800,771

(continued)

**CITY OF NEWPORT NEWS, VIRGINIA**

Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2014

	Special Revenue				Capital Projects		
<b>Assets</b>	<b>Comprehensive Services Act</b>	<b>Criminal Justice Academy</b>	<b>Animal shelter</b>	<b>Other federal and state</b>	<b>General capital improvements</b>	<b>Other federal and state</b>	<b>Total nonmajor</b>
Cash and cash equivalents	\$ 235,306	323,925	-	1,576,340	27,528,723	-	35,958,932
Restricted cash	-	-	-	-	-	1,734,174	1,734,174
Accounts receivable, net	-	-	-	-	-	-	2,679,006
Receivable from other governments:							
Local	-	-	5,056	-	153,119	-	158,175
Virginia	839,393	778	-	284,821	1,109	1,833,435	3,008,189
Federal	-	-	-	960,863	-	1,250,117	2,210,980
Advances to other funds	-	-	-	-	1,729,857	-	1,729,857
<b>Total assets</b>	<b>\$ 1,074,699</b>	<b>324,703</b>	<b>5,056</b>	<b>2,822,024</b>	<b>29,412,808</b>	<b>4,817,726</b>	<b>47,479,313</b>
<b>Liabilities</b>							
Accounts payable	\$ 738,100	7,759	-	188,597	621,835	908,335	3,334,384
Accrued liabilities	-	-	-	1,083	201,789	-	345,552
Unearned revenues	-	-	-	-	-	-	39,110
Advances from other funds	-	-	-	-	-	1,729,857	1,729,857
Advances from major governmental funds	-	-	5,335	-	-	-	1,238,173
<b>Total liabilities</b>	<b>\$ 738,100</b>	<b>7,759</b>	<b>5,335</b>	<b>189,680</b>	<b>823,624</b>	<b>2,638,192</b>	<b>6,687,076</b>
<b>Deferred Inflows of Resources</b>							
Unavailable revenue-stormwater fees	\$ -	-	-	-	-	-	495,591
<b>Fund Balances</b>							
Restricted	-	-	-	2,632,344	-	2,179,534	9,487,744
Committed	336,599	316,944	(279)	-	28,589,184	-	30,808,902
<b>Total fund balances</b>	<b>\$ 336,599</b>	<b>316,944</b>	<b>(279)</b>	<b>2,632,344</b>	<b>28,589,184</b>	<b>2,179,534</b>	<b>40,296,646</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,074,699</b>	<b>324,703</b>	<b>5,056</b>	<b>2,822,024</b>	<b>29,412,808</b>	<b>4,817,726</b>	<b>47,479,313</b>

**CITY OF NEWPORT NEWS, VIRGINIA**

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

Year ended June 30, 2014

	<b>Special Revenue</b>						
	<b>Community development</b>	<b>Street maintenance</b>	<b>Economic development</b>	<b>Law library</b>	<b>Stormwater</b>	<b>Solid waste</b>	<b>Wastewater</b>
Revenues:							
Intergovernmental:							
Virginia	\$ -	15,464,503	-	-	-	27,142	-
Federal	2,902,552	-	-	-	-	-	-
Charges for services	-	-	-	118,655	14,217,558	13,080,357	18,278,777
Interest and rents	-	-	151,087	-	24,942	(784)	(5,267)
Miscellaneous	-	-	-	-	-	8,546	-
Total revenues	\$ 2,902,552	15,464,503	151,087	118,655	14,242,500	13,115,261	18,273,510
Expenditures:							
Current operating:							
General government	-	-	-	114,782	-	-	-
Public safety	-	-	-	-	-	-	-
Public works	-	15,464,503	-	-	10,507,967	11,630,738	11,039,483
Health and welfare	-	-	-	-	-	-	-
Parks, recreation, and culture	-	-	-	-	-	-	-
Community development	2,902,552	-	204,871	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Total expenditures	\$ 2,902,552	15,464,503	204,871	114,782	10,507,967	11,630,738	11,039,483
Excess (deficiency) of revenues over (under) expenditures	-	-	(53,784)	3,873	3,734,533	1,484,523	7,234,027
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	(3,169,877)	(1,542,686)	(6,352,517)
Total other financing sources (uses), net	\$ -	-	-	-	(3,169,877)	(1,542,686)	(6,352,517)
Net changes in fund balances	-	-	(53,784)	3,873	564,656	(58,163)	881,510
Fund balances at June 30, 2013	-	-	1,436,280	180,110	3,586,827	1,255,138	(1,554,127)
Fund balances at June 30, 2014	\$ -	-	1,382,496	183,983	4,151,483	1,196,975	(672,617)

(continued)

**CITY OF NEWPORT NEWS, VIRGINIA**

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

Year ended June 30, 2014

	<b>Special Revenue</b>				<b>Capital Projects</b>		
	<b>Comprehensive Services Act</b>	<b>Criminal Justice Academy</b>	<b>Animal shelter</b>	<b>Other federal and state</b>	<b>General capital improvements</b>	<b>Other federal and state</b>	<b>Total nonmajor</b>
Revenues:							
Intergovernmental:							
Local	\$ -	-	340,738	346,933	538,500	-	1,226,171
Virginia	3,561,528	-	-	2,047,694	-	3,283,593	24,384,460
Federal	258,060	-	-	2,446,637	28,121	3,308,349	8,943,719
Charges for services	-	151,948	-	-	-	-	45,847,295
Interest and rents	-	-	-	2,892	9,496	5,147	187,513
Miscellaneous	-	-	-	-	-	-	8,546
Total revenues	\$ 3,819,588	151,948	340,738	4,844,156	576,117	6,597,089	80,597,704
Expenditures:							
Current operating:							
General government	-	-	-	-	-	-	114,782
Public safety	-	136,266	-	3,863,968	-	-	4,000,234
Public works	-	-	-	-	-	-	48,642,691
Health and welfare	5,861,267	-	-	370,130	-	-	6,231,397
Education	-	-	-	-	1,100,000	-	1,100,000
Parks, recreation, and culture	-	-	10,107	36,463	-	-	46,570
Community development	-	-	-	-	-	-	3,107,423
Capital outlay	-	-	-	-	10,118,646	6,551,129	16,669,775
Total expenditures	\$ 5,861,267	136,266	10,107	4,270,561	11,218,646	6,551,129	79,912,872
Excess (deficiency) of revenues over (under) expenditures	(2,041,679)	15,682	330,631	573,595	(10,642,529)	45,960	684,832
Other financing sources (uses):							
Transfers in	607,990	-	304,970	-	12,794,132	-	13,707,092
Transfers out	-	-	(635,880)	-	-	-	(11,700,960)
Total other financing sources (uses), net	\$ 607,990	-	(330,910)	-	12,794,132	-	2,006,132
Net changes in fund balances	(1,433,689)	15,682	(279)	573,595	2,151,603	45,960	2,690,964
Fund balances at June 30, 2013	1,770,288	301,262	-	2,058,749	26,437,581	2,133,574	37,605,682
Fund balances at June 30, 2014	\$ 336,599	316,944	(279)	2,632,344	28,589,184	2,179,534	40,296,646

**CITY OF NEWPORT NEWS, VIRGINIA**  
Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual  
Special Revenue Funds  
Year ended June 30, 2014

	Street Maintenance				Economic Development				Law Library				Stormwater			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
Revenues:																
Intergovernmental:																
Virginia	\$ 14,982,020	15,464,503	15,464,503	-	-	-	-	-	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-	146,300	146,300	118,655	(27,645)	15,519,884	16,009,642	14,217,558	(1,792,084)
Sale of property	-	-	-	-	20,000	20,000	-	(20,000)	-	-	-	-	-	-	-	-
Interest and rents	-	-	-	-	125,667	125,667	151,087	25,420	-	-	-	-	25,240	25,240	24,942	(298)
Miscellaneous	-	-	-	-	333	333	-	(333)	-	-	-	-	-	-	-	-
Total revenues	\$ 14,982,020	15,464,503	15,464,503	-	146,000	146,000	151,087	5,087	146,300	146,300	118,655	(27,645)	15,545,124	16,034,882	14,242,500	(1,792,382)
Expenditures:																
Current:																
General government	-	-	-	-	-	-	-	-	146,300	146,300	114,782	31,518	-	-	-	-
Public works	14,982,020	15,464,503	15,464,503	-	-	-	-	-	-	-	-	-	15,545,124	16,131,774	13,677,844	2,453,930
Community development	-	-	-	-	146,000	146,106	204,871	(58,765)	-	-	-	-	-	-	-	-
Total expenditures	\$ 14,982,020	15,464,503	15,464,503	-	146,000	146,106	204,871	(58,765)	146,300	146,300	114,782	31,518	15,545,124	16,131,774	13,677,844	2,453,930
Excess (deficiency) of revenues over (under) expenditures	\$ -	-	-	-	-	(106)	(53,784)	(53,678)	-	-	3,873	3,873	-	(96,892)	564,656	661,548
Excess (deficiency) of revenues over (under) expenditures			-				(53,784)				3,873				564,656	
Fund balances at July 1, 2013			-				1,436,280				180,110				3,586,827	
Fund balances at June 30, 2014		\$ -				\$ 1,382,496				\$ 183,983				\$ 4,151,483		

(continued)

**CITY OF NEWPORT NEWS, VIRGINIA**  
Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual  
Special Revenue Funds  
Year ended June 30, 2014

	Solid Waste				Wastewater				Totals			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
Revenues:												
Intergovernmental:												
Virginia	\$ 25,000	25,000	27,142	2,142	—	—	—	—	15,007,020	15,489,503	15,491,645	2,142
Charges for services	13,561,500	13,575,000	13,080,357	(494,643)	18,684,000	18,684,000	18,278,777	(405,223)	47,911,684	48,414,942	45,695,347	(2,719,595)
Sale of Property	—	—	—	—	—	—	—	—	20,000	20,000	—	(20,000)
Interest and rents	2,500	4,000	(784)	(4,784)	—	—	(5,267)	(5,267)	153,407	154,907	169,978	15,071
Miscellaneous	15,000	—	8,546	8,546	—	—	—	—	15,333	333	8,546	8,213
Total revenues	\$ 13,604,000	13,604,000	13,115,261	(488,739)	18,684,000	18,684,000	18,273,510	(410,490)	63,107,444	64,079,685	61,365,516	(2,714,169)
Expenditures:												
Current:												
General government	—	—	—	—	—	—	—	—	146,300	146,300	114,782	31,518
Public works	13,604,000	13,701,494	13,173,424	528,070	18,684,000	18,965,968	17,392,000	1,573,968	62,815,144	64,263,739	59,707,771	4,555,968
Community development	—	—	—	—	—	—	—	—	146,000	146,106	204,871	(58,765)
Total expenditures	\$ 13,604,000	13,701,494	13,173,424	528,070	18,684,000	18,965,968	17,392,000	1,573,968	63,107,444	64,556,145	60,027,424	4,528,721
Excess (deficiency) of revenues over (under) expenditures	\$ —	(97,494)	(58,163)	39,331	—	(281,968)	881,510	1,163,478	—	(476,460)	1,338,092	1,814,552
Excess (deficiency) of revenues over (under) expenditures			(58,163)				881,510				1,338,092	
Fund balances at June 30, 2013			1,255,138				(1,554,127)				4,904,228	
Fund balances at June 30, 2014		\$ 1,196,975				\$ (672,617)				\$ 6,242,320		

**CITY OF NEWPORT NEWS, VIRGINIA**  
Debt Service Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual  
Year ended June 30, 2014

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
Revenues:				
Intergovernmental - Local	\$ 13,834,357	13,834,357	13,834,357	—
Miscellaneous	-	-	43,357	43,357
Total revenues	<u>13,834,357</u>	<u>13,834,357</u>	<u>13,877,714</u>	<u>43,357</u>
Expenditures:				
General government	-	-	-	-
Debt service payments	<u>60,626,779</u>	<u>60,626,779</u>	<u>59,742,875</u>	<u>883,904</u>
Total expenditures	<u>60,626,779</u>	<u>60,626,779</u>	<u>59,742,875</u>	<u>883,904</u>
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(46,792,422)</u>	<u>(46,792,422)</u>	(45,865,161)	<u>927,261</u>
Other financing sources:				
Transfers in			<u>45,957,608</u>	
Net changes in fund balances			92,447	
Fund balances at June 30, 2013			<u>1,467,172</u>	
Fund balances at June 30, 2014			\$ <u><u>1,559,619</u></u>	

**CITY OF NEWPORT NEWS, VIRGINIA**  
Combining Statement of Changes in Assets and Liabilities  
Agency Funds  
Year Ended June 30, 2014

<b>GPWDC</b>	<b>Balance June 30, 2013</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2014</b>
Assets:				
Cash and cash equivalents	\$ 104,553	4,361,135	4,363,508	102,180
Accounts receivable	395,793	687,265	452,237	630,821
Total assets	<u>\$ 500,346</u>	<u>5,048,400</u>	<u>4,815,745</u>	<u>733,001</u>
Liabilities:				
Accounts payable	\$ 291,793	3,214,212	3,310,233	195,772
Due to other agencies	208,553	386,023	57,347	537,229
Total liabilities	<u>\$ 500,346</u>	<u>3,600,235</u>	<u>3,367,580</u>	<u>733,001</u>
 <b>Other Agency Funds</b>				
Assets:				
Cash and cash equivalents	\$ 4,474,827	19,362,222	18,699,340	5,137,709
Accounts receivable	3,374,844	19,574,660	19,648,577	3,300,927
Inventory	1,512	1,639	–	3,151
Total assets	<u>\$ 7,851,183</u>	<u>38,938,521</u>	<u>38,347,917</u>	<u>8,441,787</u>
Liabilities:				
Accounts payable	\$ 772,005	18,018,532	17,803,913	986,624
Due to other governments	4,553,876	199,877	–	4,753,753
Due to other agencies	2,525,302	3,384,283	3,208,175	2,701,410
Total liabilities	<u>\$ 7,851,183</u>	<u>21,602,692</u>	<u>21,012,088</u>	<u>8,441,787</u>
 <b>Total - Agency Funds</b>				
Assets:				
Cash and cash equivalents	\$ 4,579,380	23,723,357	23,062,848	5,239,889
Accounts receivable	3,770,637	20,261,925	20,100,814	3,931,748
Inventory	1,512	1,639	–	3,151
Total assets	<u>\$ 8,351,529</u>	<u>43,986,921</u>	<u>43,163,662</u>	<u>9,174,788</u>
Liabilities:				
Accounts payable	\$ 1,063,798	21,232,744	21,114,146	1,182,396
Due to other governments	4,553,876	199,877	–	4,753,753
Due to other agencies	2,733,855	3,770,306	3,265,522	3,238,639
Total liabilities	<u>\$ 8,351,529</u>	<u>25,202,927</u>	<u>24,379,668</u>	<u>9,174,788</u>

**CITY OF NEWPORT NEWS, VIRGINIA**

Combining Statement of Net Position

Non-Major Component Units

June 30, 2014

<b>Assets</b>	<b>Peninsula Airport Commission</b>	<b>Economic and Industrial Development Authorities</b>	<b>Totals</b>
Current Assets:			
Cash and cash equivalents	\$ 4,234,495	8,989,674	13,224,169
Restricted cash and investments	—	11,210,763	11,210,763
Receivables:			
Accounts	445,828	74,906	520,734
Loans	1,244,867	—	1,244,867
Net investment in direct financing leases	—	959,905	959,905
Inventories	79,627	—	79,627
Other current assets	673,113	1,525,449	2,198,562
Total current assets	6,677,930	22,760,697	29,438,627
Restricted cash and cash equivalents	2,632,351	1,665,177	4,297,528
Restricted investments	—	473	473
Receivables:			
Loans	—	457,954	457,954
Notes	—	3,037,590	3,037,590
Land held for lease or resale	—	26,696,686	26,696,686
Net investment in direct financing leases	—	80,999	80,999
Property, plant and equipment:			
Land	6,604,658	—	6,604,658
Construction in progress	3,974,784	5,390,234	9,365,018
Infrastructure	—	2,543,500	2,543,500
Buildings	—	183,720,830	183,720,830
Improvements	—	14,274,715	14,274,715
Airfield	85,681,494	—	85,681,494
Terminal	72,104,714	—	72,104,714
Trailer park and rental units	1,852,612	—	1,852,612
Machinery and equipment	4,245,827	84,674	4,330,501
Accumulated depreciation	(70,493,981)	(50,126,290)	(120,620,271)
Total assets	113,280,389	210,587,239	323,867,628
<b>Deferred Outflows</b>			
Deferred swap	—	2,887,589	2,887,589
Debt refunding	—	7,451,793	7,451,793
Total deferred outflows	—	10,339,382	10,339,382
<b>Liabilities</b>			
Current Liabilities			
Accounts payable	\$ 1,466,641	1,358,022	2,824,663
Accrued liabilities	445,167	101,946	547,113
Deposits/unearned revenues	54,589	144,203	198,792
Due to Primary Government	—	280,987	280,987
Bonds payable - due within one year	398,891	8,871,710	9,270,601
Nonexchange financial guarantee	4,454,518	—	4,454,518
Total current liabilities	6,819,806	10,756,868	17,576,674
Due to Primary Government	—	9,875,153	9,875,153
Note payable	—	1,500,000	1,500,000
Bonds payable	9,348,347	99,142,509	108,490,856
Other postemployment benefits liability	3,752,331	—	3,752,331
Total liabilities	19,920,484	121,274,530	141,195,014
<b>Net Position</b>			
Net investment in capital assets	94,222,870	58,798,438	153,021,308
Restricted for:			
Capital projects	2,632,351	11,431,488	14,063,839
Capital loans	—	1,444,925	1,444,925
Unrestricted	(3,495,316)	27,977,240	24,481,924
Total net position	93,359,905	99,652,091	193,011,996

**CITY OF NEWPORT NEWS, VIRGINIA**

Combining Statement of Revenues, Expenses and Changes in Net Position

Non-Major Component Units

Year ended June 30, 2014

	<b>Peninsula Airport Commission</b>	<b>Economic and Industrial Development Authorities</b>	<b>Totals</b>
Operating revenues:			
Charges for services	\$ 7,732,935	–	7,732,935
Property rentals	–	10,071,317	10,071,317
Parking contributions	–	139,363	139,363
Land sales	–	862,409	862,409
Intergovernmental-Regional Air Service Enhancement Fund	–	143,194	143,194
Intergovernmental-Parking Authority	–	624,916	624,916
Intergovernmental-Primary Government	–	16,006,256	16,006,256
Total operating revenues	<u>7,732,935</u>	<u>27,847,455</u>	<u>35,580,390</u>
Operating expenses:			
Cost of land sold	–	164,547	164,547
Personal services	3,948,443	638,901	4,587,344
Contractual services	2,393,961	6,050,673	8,444,634
Materials and supplies	784,704	533,671	1,318,375
Depreciation and amortization	6,547,444	4,769,148	11,316,592
Real estate commissions	–	2,707	2,707
Rental expenses	–	2,870,098	2,870,098
Miscellaneous	126,604	538,236	664,840
Total operating expenses	<u>13,801,156</u>	<u>15,567,981</u>	<u>29,369,137</u>
Operating income (loss)	<u>(6,068,221)</u>	<u>12,279,474</u>	<u>6,211,253</u>
Nonoperating revenues (expenses):			
Interest revenue	12,345	151,097	163,442
Bond and admin fee income	–	304,907	304,907
Interest expense	(472,159)	(5,639,976)	(6,112,135)
Letter of credit and trustee fees	–	(84,898)	(84,898)
Contribution - Primary Government	–	1,000,000	1,000,000
Other revenues	–	647,413	647,413
Nonexchange financial guarantee	(4,454,518)		(4,454,518)
Nonoperating air service development expense	(207,618)	–	(207,618)
OPEB expense	(379,922)	–	(379,922)
Loss on retirement of assets	(51,805)	(3,200,194)	(3,251,999)
Nonoperating expenses, net	<u>(5,553,677)</u>	<u>(6,821,651)</u>	<u>(12,375,328)</u>
Special Item:			
Achievable Dream	–	(3,565,882)	(3,565,882)
Total Special Item	<u>–</u>	<u>(3,565,882)</u>	<u>(3,565,882)</u>
Capital contributions, net	<u>10,063,124</u>	<u>–</u>	<u>10,063,124</u>
Change in net position	<u>(1,558,774)</u>	<u>1,891,941</u>	<u>333,167</u>
Net position at June 30, 2013 - (*Restated)	<u>94,918,679</u>	<u>97,760,150</u>	<u>192,678,829</u>
Net position at June 30, 2014	\$ <u>93,359,905</u>	<u>99,652,091</u>	<u>193,011,996</u>

\*Balances for EIDA were restated to reflect implementation of GASB 65

**CITY OF NEWPORT NEWS, VIRGINIA**

Statement of Cash Flows  
Non-Major Component Units  
Year ended June 30, 2014

	<b>Peninsula Airport Commission</b>	<b>Economic and Industrial Development Authorities</b>	<b>Totals</b>
Cash flows from operating activities:			
Receipts from customers	\$ 7,803,557	26,571,827	34,375,384
Receipts from land sales and new loans, net of settlement charges	-	1,026,926	1,026,926
Payments to suppliers	(3,288,812)	(10,430,360)	(13,719,172)
Payments to employees	(3,948,443)	(638,901)	(4,587,344)
Net cash provided by operating activities	<u>566,302</u>	<u>16,529,492</u>	<u>17,095,794</u>
Cash flows from noncapital financing activities:			
Nonoperating air service development expense	(207,618)	-	(207,618)
Net cash used in capital and related financing activities	<u>(207,618)</u>	<u>-</u>	<u>(207,618)</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(9,202,951)	(816,425)	(10,019,376)
Capital contributions, net	9,705,344	-	9,705,344
Repayment and retirement of industrial revenue bonds and notes payable	(383,101)	(8,366,495)	(8,749,596)
Proceeds from Primary Government	-	322,626	322,626
Payment to Primary Government	-	(1,730,125)	(1,730,125)
Interest paid	(472,159)	(5,267,412)	(5,739,571)
Payment of Achievable Dream debt service reserve escrow	-	(3,656,882)	(3,656,882)
Other expenses, net	(763)	(2,480,250)	(2,481,013)
Net cash used in capital and related financing activities	<u>(353,630)</u>	<u>(21,994,963)</u>	<u>(22,348,593)</u>
Cash flows from investing activities:			
Net investment in direct financing leases	-	937,966	937,966
Interest received	12,345	152,015	164,360
Increase in restricted investments, net	(282,935)	-	(282,935)
Net cash provided by investing activities	<u>(270,590)</u>	<u>1,089,981</u>	<u>819,391</u>
Increase (decrease) in cash and cash equivalents	<u>(265,536)</u>	<u>(4,375,490)</u>	<u>(4,433,408)</u>
Cash, cash equivalents and restricted cash at beginning of year	<u>4,500,031</u>	<u>26,241,104</u>	<u>30,741,135</u>
Cash, cash equivalents and restricted cash at end of year	\$ <u>4,234,495</u>	<u>21,865,614</u>	<u>26,307,727</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (6,068,221)	12,279,474	6,211,253
Adjustment to reconcile operating income (loss) to cash provided by operating activities:			
Depreciation	6,547,444	4,769,148	11,316,592
OPEB expense paid	(88,932)	-	(88,932)
Changes in assets and liabilities:			
Changes in land inventory	70,622	(319,884)	(249,262)
Mortgages receivable	-	164,517	164,517
Other receivables	-	(557,422)	(557,422)
Inventories	33,435	-	33,435
Prepaid Assets	(60,483)	-	(60,483)
Accounts payable and accrued liabilities	261,064	49,456	310,520
Unearned revenue	(128,627)	144,203	15,576
Net cash provided by operating activities	\$ <u>566,302</u>	<u>16,529,492</u>	<u>17,095,794</u>
Supplemental disclosure:			
Noncash investing and financing activities:			
Forgiveness of Debt	\$ -	1,000,000	1,000,000
Contributed land, net of lower of cost or market writedown	-	4,334,715	4,334,715
Contributed capital funded by accounts receivable	1,244,867	-	1,244,867

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**CITY OF NEWPORT NEWS, VIRGINIA**  
**Trust Funds**  
**Combining Statement of Fiduciary Net Position**  
**June 30, 2014**

	<b>Pension</b>	<b>OPEB</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 2,942,312	\$ 4,568,290	\$ 7,510,602
Cash and cash equivalents with trustee	51,460,816	10,168,995	61,629,811
Investments, at market value:			
Corporate and government bonds	130,684,689	-	130,684,689
Domestic stocks	395,106,853	-	395,106,853
Domestic mutual funds	-	7,935,272	7,935,272
International stocks	107,982,227	-	107,982,227
International mutual funds	59,127,787	5,717,282	64,845,069
Real estate and timber	101,622,523	-	101,622,523
Receivable from City	2,327,525	873,075	3,200,600
Receivable from other components	231,591	-	231,591
Receivable from OPEB	2,700,000	-	2,700,000
Sales receivable	2,903,735	12,849	2,916,584
Total assets	<u>857,090,058</u>	<u>29,275,763</u>	<u>886,365,821</u>
<b>Liabilities</b>			
Accounts payable	143,919	1,170,149	1,314,068
Payable to Pension	-	2,700,000	2,700,000
Accrued vacation	44,771	-	44,771
Purchases payable	1,920,567	-	1,920,567
Total liabilities	<u>2,109,257</u>	<u>3,870,149</u>	<u>5,979,406</u>
<b>Net Position</b>			
Assets held in trust:			
Postemployment healthcare benefits	-	25,405,614	25,405,614
Employees' retirement	854,980,801	-	854,980,801
Total net position	<u>\$ 854,980,801</u>	<u>\$ 25,405,614</u>	<u>\$ 880,386,415</u>

**CITY OF NEWPORT NEWS, VIRGINIA**  
**Trust Funds**  
**Combining Statement of Changes in Fiduciary Net Position**  
**Year ended June 30, 2014**

	<u>Pension</u>	<u>OPEB</u>	<u>Total</u>
Additions:			
Employer Contributions:			
City General Fund	\$ 20,409,635	\$ 8,992,000	\$ 29,401,635
Waterworks Fund	2,243,413	1,248,000	3,491,413
School Operating Fund	6,711,778	-	6,711,778
Employee Contributions:			
City General Fund	5,256,572	-	5,256,572
Waterworks Fund	653,230	-	653,230
School Operating Fund	293,637	-	293,637
Other Contributions:			
Income from Leave Exchange	103,265	-	103,265
Employee Buy-back	251,907	-	251,907
Total contributions	<u>35,923,437</u>	<u>10,240,000</u>	<u>46,163,437</u>
Investment income:			
Net depreciation - bonds	(1,579,658)	-	(1,579,658)
Net appreciation - stocks	99,247,092	3,017,279	102,264,371
Interest	4,299,644	5,960	4,305,604
Dividends	9,766,304	323,033	10,089,337
Real estate operating income, net	6,025,757	-	6,025,757
Commission recapture	95,256	-	95,256
Other investment income	-	911	911
Total investment loss	<u>117,854,395</u>	<u>3,347,183</u>	<u>121,201,578</u>
Less investment expenses:	<u>(4,649,366)</u>	<u>(102,458)</u>	<u>(4,751,824)</u>
Net investment gain	<u>113,205,029</u>	<u>3,244,725</u>	<u>116,449,754</u>
Total additions	<u>149,128,466</u>	<u>13,484,725</u>	<u>162,613,191</u>
Deductions:			
Benefits paid to participants	67,370,583	8,558,535	75,929,118
Refunds of member contributions	23,335	-	23,335
Administrative expenses	866,517	42,616	909,133
Total deductions	<u>68,260,435</u>	<u>8,601,151</u>	<u>76,861,586</u>
Change in net position	<u>80,868,031</u>	<u>4,883,574</u>	<u>85,751,605</u>
Net position held in trust for pension benefits at June 30, 2013	774,112,770	20,522,040	794,634,810
Net position held in trust for pension benefits at June 30, 2014	<u>\$ 854,980,801</u>	<u>\$ 25,405,614</u>	<u>\$ 880,386,415</u>

## STATISTICAL SECTION

This part of the City of Newport News' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	S-1
Revenue Capacity These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.	S-5
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current level of outstanding debt and the City's ability to issue additional debt in the future.	S-10
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.	S-14
Operating Information These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.	S-16

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

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**City of Newport News, Virginia**  
**Net Position by Component**  
**Last Ten Fiscal Years**  
**(Accrual basis of accounting)**

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Governmental activities										
Net investment in capital assets	\$ 344,253,405	\$ 331,677,129	\$ 311,394,219	\$ 290,455,293	\$ 251,724,446	\$ 228,275,222	\$ 223,305,188	\$ 190,926,170	\$ 175,306,479	\$ 162,580,785
Restricted	11,105,034	9,396,408	10,732,493	1,182,184	1,034,412	1,517,751	1,853,588	2,234,557	1,521,091	3,998,951
Unrestricted	(169,541,405)	(165,087,764)	(141,023,569)	(104,156,300)	(59,047,595)	(46,605,508)	(37,333,216)	(3,441,801)	14,603,368	30,067,425
Total governmental activities net position	<u>\$ 185,817,034</u>	<u>\$ 175,985,773</u>	<u>\$ 181,103,143</u>	<u>\$ 187,481,177</u>	<u>\$ 193,711,263</u>	<u>\$ 183,187,465</u>	<u>\$ 187,825,560</u>	<u>\$ 189,718,926</u>	<u>\$ 191,430,938</u>	<u>\$ 196,647,161</u>
Business-type activities										
Net investment in capital assets	\$ 243,541,418	\$ 232,313,434	\$ 257,644,908	\$ 251,759,910	\$ 238,441,047	\$ 276,666,222	\$ 277,770,877	\$ 269,150,510	\$ 264,939,418	\$ 249,491,400
Restricted	28,007,541	30,427,669	-	-	-	-	-	-	225,000	225,000
Unrestricted	27,165,354	21,103,436	19,485,138	23,521,844	31,828,423	41,643,472	29,287,711	24,572,102	18,150,853	16,912,260
Total business-type activities net position *	<u>\$ 298,714,313</u>	<u>\$ 283,844,539</u>	<u>\$ 277,130,046</u>	<u>\$ 275,281,754</u>	<u>\$ 270,269,470</u>	<u>\$ 318,309,694</u>	<u>\$ 307,058,588</u>	<u>\$ 293,722,612</u>	<u>\$ 283,315,271</u>	<u>\$ 266,628,660</u>
Primary Government										
Net investment in capital assets	\$ 587,794,823	\$ 563,990,563	\$ 569,039,127	\$ 542,215,203	\$ 490,165,493	\$ 504,941,444	\$ 501,076,065	\$ 460,076,680	\$ 440,245,897	\$ 412,072,185
Restricted	39,112,575	39,824,077	10,732,493	1,182,184	1,034,412	1,517,751	1,853,588	2,234,557	1,746,091	4,223,951
Unrestricted (deficit)	(142,376,051)	(143,984,328)	(121,538,431)	(80,634,456)	(27,219,172)	(4,962,036)	(8,045,505)	21,130,301	32,754,221	46,979,685
Total Primary Government net position	<u>\$ 484,531,347</u>	<u>\$ 459,830,312</u>	<u>\$ 458,233,189</u>	<u>\$ 462,762,931</u>	<u>\$ 463,980,733</u>	<u>\$ 501,497,159</u>	<u>\$ 494,884,148</u>	<u>\$ 483,441,538</u>	<u>\$ 474,746,209</u>	<u>\$ 463,275,821</u>

Note: \* Effective in fiscal year 2007: Parking Authority is no longer reported as a business-type activity; it is now reported under The Economic and Industrial Development Authorities (E/IDA).

**City of Newport News, Virginia**  
**Changes in Net Position**  
**Last Ten Fiscal Years**  
**(Accrual basis of accounting)**

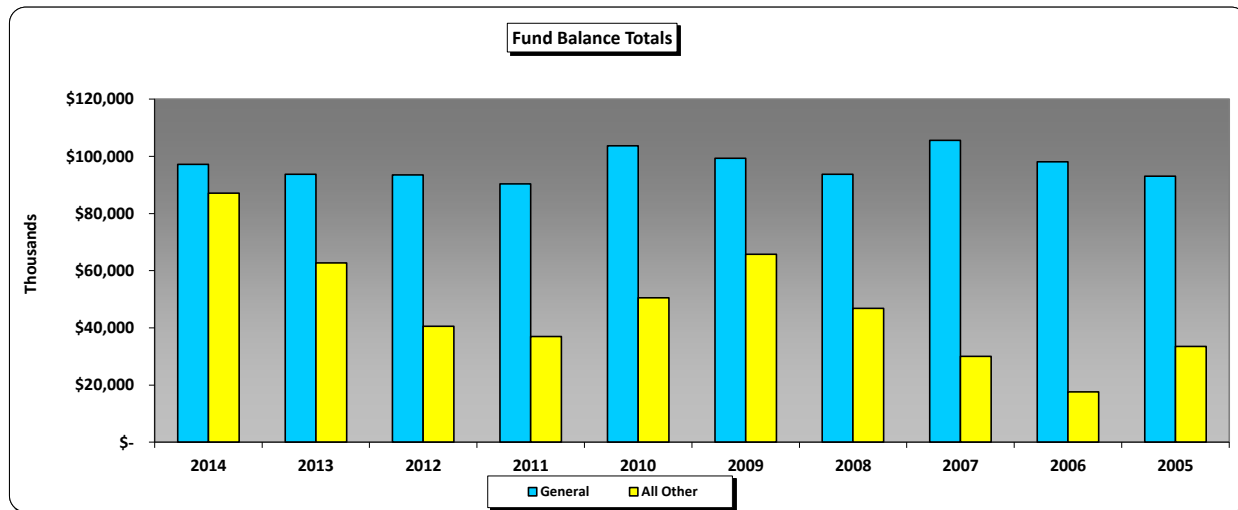
	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Program revenues</b>										
<b>Governmental activities:</b>										
Charges for services:										
Public works	\$ 45,729,958	\$ 40,889,684	\$ 37,095,768	\$ 36,800,694	\$ 37,744,481	\$ 34,526,097	\$ 30,513,564	\$ 28,057,816	\$ 26,160,999	\$ 23,453,616
All others	27,341,075	27,279,880	26,264,076	25,854,740	25,805,742	26,406,149	25,760,135	25,941,895	24,758,610	24,671,063
Operating grants and contributions	41,230,144	39,249,011	41,429,302	44,986,270	42,704,554	44,966,813	45,835,149	44,078,633	43,861,201	59,841,991
Capital grants and contributions	8,261,793	6,482,329	4,966,923	3,156,118	4,740,959	1,962,681	2,140,343	2,771,153	2,970,950	11,326,181
<b>Total governmental activities program revenues</b>	<b>122,562,970</b>	<b>113,900,904</b>	<b>109,756,069</b>	<b>110,797,822</b>	<b>110,995,736</b>	<b>107,861,740</b>	<b>104,249,191</b>	<b>100,849,497</b>	<b>97,751,760</b>	<b>119,292,851</b>
<b>Business-type activities:</b>										
Charges for services	85,580,834	76,099,474	73,337,822	74,497,015	72,719,343	73,817,176	76,003,756	71,908,595	72,397,545	64,692,616
Operating grants and contributions	2,327,993	2,811,556	3,475,356	3,677,892	5,381,669	8,332,219	3,782,758	3,530,826	3,753,852	4,836,670
<b>Total business-type activities program revenues</b>	<b>87,908,827</b>	<b>78,911,030</b>	<b>76,813,178</b>	<b>78,174,907</b>	<b>78,101,012</b>	<b>82,149,395</b>	<b>79,786,514</b>	<b>75,439,421</b>	<b>76,151,397</b>	<b>69,529,286</b>
<b>Total Primary Government program revenues</b>	<b>210,471,797</b>	<b>192,811,934</b>	<b>186,569,247</b>	<b>188,972,729</b>	<b>189,096,748</b>	<b>190,011,135</b>	<b>184,035,705</b>	<b>176,288,918</b>	<b>173,903,157</b>	<b>188,822,137</b>
<b>Expenses</b>										
<b>Governmental activities:</b>										
General government	98,295,537	85,544,610	53,687,583	41,072,050	56,496,116	67,006,531	54,904,104	54,577,481	64,991,195	57,053,132
Judicial administration	6,801,427	6,779,007	7,796,103	7,675,395	7,061,964	7,042,239	7,269,926	6,919,927	6,397,049	6,060,839
Public safety	116,029,097	113,305,100	131,544,707	129,661,963	119,642,698	120,240,436	119,019,088	112,089,213	100,481,015	96,637,983
Public works	72,201,809	70,293,521	76,076,207	77,288,468	71,950,527	70,635,586	70,571,291	66,258,073	63,695,077	54,351,940
Health and welfare	40,894,433	42,283,290	49,131,969	54,114,507	52,805,082	56,468,567	58,563,411	56,061,131	53,362,500	53,692,902
Education	119,743,781	116,592,925	117,566,704	118,376,318	119,956,981	116,528,527	114,275,568	117,460,703	104,054,463	107,463,439
Parks, recreation and culture	32,804,044	34,050,686	34,690,901	34,385,246	32,614,571	34,409,781	36,183,209	32,557,355	29,934,662	27,059,823
Community development	9,764,564	11,194,312	8,743,779	12,678,704	10,369,291	8,832,458	10,623,457	8,700,790	11,168,279	10,455,402
Interest and other fiscal charges	20,607,931	22,927,201	25,545,336	30,258,101	23,923,629	25,487,370	24,118,788	21,149,858	17,169,976	19,109,084
<b>Total governmental activities expenses</b>	<b>517,142,623</b>	<b>502,970,652</b>	<b>504,783,289</b>	<b>505,510,752</b>	<b>494,820,859</b>	<b>506,651,495</b>	<b>495,528,842</b>	<b>475,774,531</b>	<b>451,254,216</b>	<b>431,884,544</b>
<b>Business-type activities:</b>										
Public utilities	62,911,823	62,502,189	65,287,629	63,397,723	64,078,572	62,684,897	59,439,084	54,357,032	51,394,362	46,037,659
Parking Authority *	-	-	-	-	-	-	-	-	199,461	262,691
<b>Total business-type activities expenses</b>	<b>62,911,823</b>	<b>62,502,189</b>	<b>65,287,629</b>	<b>63,397,723</b>	<b>64,078,572</b>	<b>62,684,897</b>	<b>59,439,084</b>	<b>54,357,032</b>	<b>51,593,823</b>	<b>46,300,350</b>
<b>Total primary government expenses</b>	<b>580,054,446</b>	<b>565,472,841</b>	<b>570,070,918</b>	<b>568,908,475</b>	<b>558,899,431</b>	<b>569,336,392</b>	<b>554,967,926</b>	<b>530,131,563</b>	<b>502,848,039</b>	<b>478,184,894</b>
<b>Net Revenue/(Expenses)</b>										
Governmental activities	(394,579,653)	(389,069,748)	(395,027,220)	(394,712,930)	(383,825,123)	(398,789,755)	(391,279,651)	(374,925,034)	(353,502,456)	(312,591,693)
Business-type activities	24,997,004	16,408,841	11,525,549	14,777,184	14,022,440	19,464,498	20,347,430	21,082,389	24,557,574	23,228,936
<b>Total primary government</b>	<b>(369,582,649)</b>	<b>(372,660,907)</b>	<b>(383,501,671)</b>	<b>(379,935,746)</b>	<b>(369,802,683)</b>	<b>(379,325,257)</b>	<b>(370,932,221)</b>	<b>(353,842,645)</b>	<b>(328,944,882)</b>	<b>(289,362,757)</b>
<b>General revenues and Other Changes in Net Assets</b>										
<b>Governmental activities:</b>										
Property taxes	246,119,180	229,811,554	229,194,920	230,980,102	236,993,370	233,735,214	219,867,771	207,827,846	187,912,894	172,575,384
Other taxes	96,418,092	96,537,561	91,744,426	89,063,340	88,595,948	89,624,744	93,161,528	90,412,582	89,170,125	83,396,354
Unrestricted grants and contributions	42,216,776	41,481,654	47,106,347	48,209,536	48,630,187	48,993,988	49,350,467	48,308,625	45,473,865	37,699,447
Investment earnings	2,293,272	2,328,310	2,270,634	2,395,569	2,663,324	3,596,647	6,169,470	6,465,913	5,007,664	3,116,612
Miscellaneous	9,358,360	3,902,299	8,441,859	7,834,297	7,466,092	8,201,067	10,837,049	11,087,567	11,587,686	8,013,660
Transfers	9,391,000	9,891,000	9,891,000	10,000,000	10,000,000	10,000,000	10,000,000	9,110,489	9,134,000	9,134,000
<b>Total governmental activities</b>	<b>405,796,680</b>	<b>383,952,378</b>	<b>388,649,186</b>	<b>388,482,844</b>	<b>394,348,921</b>	<b>394,151,660</b>	<b>389,386,285</b>	<b>373,213,022</b>	<b>348,286,234</b>	<b>313,935,457</b>
<b>Business-type activities:</b>										
Investment earnings	153,241	196,652	213,743	235,100	549,737	1,940,465	2,988,546	1,926,084	1,240,697	485,453
Extraordinary loss	-	-	-	-	(52,612,401)	-	-	-	-	-
Transfers	(9,391,000)	(9,891,000)	(9,891,000)	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)	(9,110,489)	(9,134,000)	(9,134,000)
<b>Total business-type activities</b>	<b>(9,237,759)</b>	<b>(9,694,348)</b>	<b>(9,677,257)</b>	<b>(9,764,900)</b>	<b>(62,062,664)</b>	<b>(8,059,535)</b>	<b>(7,011,454)</b>	<b>(7,184,405)</b>	<b>(7,893,303)</b>	<b>(8,648,547)</b>
<b>Total Primary Government</b>	<b>396,558,921</b>	<b>374,258,030</b>	<b>378,971,929</b>	<b>378,717,944</b>	<b>332,286,257</b>	<b>386,092,125</b>	<b>382,374,831</b>	<b>366,028,617</b>	<b>340,392,931</b>	<b>305,286,910</b>
<b>Changes in Net Position</b>										
Governmental activities	11,217,027	(5,117,370)	(6,378,034)	(6,230,086)	10,523,798	(4,638,095)	(1,893,366)	(1,712,012)	(5,216,222)	1,343,764
Business-type activities	15,759,245	6,714,493	1,848,292	5,012,284	(48,040,224)	11,404,963	13,335,976	13,897,984	16,664,271	14,580,389
<b>Total Primary Government</b>	<b>\$ 26,976,272</b>	<b>\$ 1,597,123</b>	<b>\$ (4,529,742)</b>	<b>\$ (1,217,802)</b>	<b>\$ (37,516,426)</b>	<b>\$ 6,766,868</b>	<b>\$ 11,442,610</b>	<b>\$ 12,185,972</b>	<b>\$ 11,448,049</b>	<b>\$ 15,924,153</b>

Note: \* Effective fiscal year 2007: Parking Authority is no longer reported as a business-type activity; they are now reported under The Economic and Industrial Development Authorities (E/IDA).

**City of Newport News, Virginia**  
**Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**  
**(Modified accrual basis of accounting)**

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>General fund</b>										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ 6,305,988	\$ 5,194,291	\$ 6,009,589	\$ 6,791,817	\$ 6,356,403	\$ 7,284,539
Unreserved	-	-	-	-	97,366,646	94,164,397	87,703,448	98,820,178	91,686,630	85,724,284
Nonspendable	11,370,286	12,862,783	15,412,699	15,711,917	-	-	-	-	-	-
Restricted	90,649	563,863	2,013,986	2,011,665	-	-	-	-	-	-
Assigned	38,415,687	34,939,767	34,656,608	31,290,680	-	-	-	-	-	-
Unassigned	47,366,583	45,353,317	41,364,679	41,390,600	-	-	-	-	-	-
<b>Total general fund</b>	<b>\$ 97,243,205</b>	<b>\$ 93,719,730</b>	<b>\$ 93,447,972</b>	<b>\$ 90,404,862</b>	<b>\$ 103,672,634</b>	<b>\$ 99,358,688</b>	<b>\$ 93,713,037</b>	<b>\$ 105,611,995</b>	<b>\$ 98,043,033</b>	<b>\$ 93,008,823</b>
<b>All other governmental funds</b>										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ 17,170,639	\$ 11,977,232	\$ 14,741,065	\$ 12,333,840	\$ 21,873,135	\$ 28,361,951
Unreserved, reported in:										
Special revenue fund	-	-	-	-	12,372,862	15,126,615	10,474,287	9,267,465	8,845,238	10,597,971
Debt service fund	-	-	-	-	6,511,346	1,258,059	2,695,240	1,306,632	319,453	1,137,289
Capital project fund	-	-	-	-	13,290,298	10,927,505	11,555,870	9,492,210	2,749,848	1,253,898
Bond fund	-	-	-	-	1,144,480	26,477,781	7,393,868	(2,354,461)	(16,143,636)	(7,897,965)
Restricted	56,269,407	32,442,547	24,773,693	28,210,329	-	-	-	-	-	-
Committed	30,841,880	30,148,309	32,951,026	40,772,110	-	-	-	-	-	-
Assigned	-	92,000	-	30,000	-	-	-	-	-	-
Unassigned	-	-	(17,129,925)	(32,086,837)	-	-	-	-	-	-
<b>Total all other governmental funds</b>	<b>\$ 87,111,287</b>	<b>\$ 62,682,856</b>	<b>\$ 40,594,794</b>	<b>\$ 36,925,602</b>	<b>\$ 50,489,625</b>	<b>\$ 65,767,192</b>	<b>\$ 46,860,330</b>	<b>\$ 30,045,686</b>	<b>\$ 17,644,038</b>	<b>\$ 33,453,144</b>

With the implementation of GASB Statement No. 54 in Fiscal Year 2011, the fund balance terminology was changed.



**City of Newport News, Virginia**  
**Changes in Fund Balances, Governmental Funds**  
**Last Ten Fiscal Years**  
(Modified accrual basis of accounting)  
(in thousands of dollars)

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Revenues</b>										
General property taxes	\$245,531	\$228,025	\$229,353	\$230,860	\$236,184	\$233,632	\$219,316	\$208,128	\$189,477	\$170,347
Other local taxes	96,418	96,538	91,744	89,063	88,596	89,625	93,162	90,413	89,170	83,396
Licenses and permits	3,433	2,803	3,645	3,372	2,846	3,170	3,672	3,315	3,487	3,706
Fines and forfeitures	2,599	2,984	2,697	2,332	2,213	1,981	1,881	1,826	2,079	2,187
Interest and rents	2,285	2,322	2,264	2,391	2,653	3,579	6,147	6,437	4,987	3,129
Charges for services	64,421	59,179	54,895	54,057	55,523	51,003	46,403	44,484	41,289	37,981
Recovered costs	6,051	6,007	5,768	6,267	5,814	7,948	8,718	7,690	7,551	8,737
Intergovernmental	90,606	86,344	93,076	94,980	92,883	95,048	96,745	94,477	90,199	103,533
Miscellaneous	3,596	3,810	3,034	3,476	3,348	3,821	4,964	5,411	6,714	3,662
Total revenues	514,940	488,012	486,476	486,798	490,060	489,807	481,008	462,181	434,953	416,678
<b>Expenditures</b>										
General government	77,930	76,785	50,109	49,331	51,254	51,921	49,368	48,637	57,389	46,546
Judicial administration	6,129	5,861	6,733	6,592	6,236	6,148	6,218	5,910	5,517	5,184
Public safety	107,104	100,419	116,183	114,075	108,877	108,467	105,008	99,472	90,508	86,910
Public works	59,511	55,527	60,806	62,152	58,764	57,178	56,174	51,798	49,915	42,017
Health and welfare	39,113	38,807	44,654	48,918	49,309	52,154	52,892	50,487	48,989	44,957
Education	117,890	119,362	123,007	118,262	119,581	119,088	121,770	121,050	104,848	109,639
Parks recreation culture	26,637	26,829	27,421	26,923	25,976	27,082	28,174	26,384	24,412	21,822
Community development	8,811	9,778	7,429	10,852	8,959	7,439	8,899	7,140	9,573	8,932
Debt service:										
Principal	38,295	35,123	36,792	33,675	33,444	34,422	35,742	31,333	31,156	38,750
Interest	21,690	22,426	25,424	28,100	24,356	26,054	24,792	21,861	17,281	20,625
Capital outlay	45,878	38,271	37,883	27,791	27,186	21,858	33,615	37,535	52,626	25,945
Bond issuance cost	-	-	-	-	-	-	-	370	475	-
Total expenditures	548,988	529,188	536,441	526,671	513,942	511,811	522,651	501,977	492,689	451,327
Deficiency of revenues										
Under expenditures	(34,048)	(41,176)	(49,965)	(39,873)	(23,882)	(22,004)	(41,643)	(39,796)	(57,736)	(34,649)
<b>Other Financing sources (Uses)</b>										
Transfer In	69,806	64,854	63,980	87,189	69,587	66,217	78,707	63,120	51,963	44,599
Transfer Out	(60,415)	(54,963)	(54,089)	(77,189)	(59,587)	(56,217)	(68,707)	(54,010)	(42,829)	(35,465)
Payment to refund bonds	(64,867)	-	(76,685)	-	-	(136)	-	(22,380)	(30,533)	(11,785)
Premium on refunded bonds	7,464	-	7,756	-	-	663	1,716	3,666	2,131	1,109
Refund bonds proceeds	56,115	-	69,335	-	-	481	-	20,370	28,020	12,720
Bond and note proceeds	45,000	51,905	42,121	3,041	2,918	35,549	34,843	49,001	37,873	32,367
Premium on bonds issuance	8,897	5,698	4,259	-	-	-	-	-	985	-
Capital leases	-	-	-	-	-	-	-	-	-	-
Contribution to PAC	-	(3,958)	-	-	-	-	-	-	-	-
Total other financing sources (uses), net	62,000	63,536	56,677	13,041	12,918	46,557	46,559	59,767	47,610	43,545
Net change in fund balance	\$27,952	\$22,360	\$6,712	(\$26,832)	(\$10,964)	\$24,553	\$4,916	\$19,971	(\$10,126)	\$8,896
Debt service as a percentage of noncapital expenditures *	11.9%	11.7%	12.5%	12.4%	11.7%	12.3%	12.4%	11.5%	11.0%	14.0%

\*Corrected capitalized expenditure amounts that are used to determine debt service as a percentage of noncapital expenditures for fiscal years 2005 thru 2013.

**City of Newport News, Virginia**  
**Governmental Activities Tax Revenues By Source**  
**Last Ten Fiscal Years**  
**(Modified accrual basis of accounting)**

	Fiscal Year										% Change 2005-2014
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	
Property tax	\$246,119,180	\$229,811,554	\$229,194,920	\$230,980,102	\$236,183,979	\$233,631,532	\$219,315,976	\$208,128,176	\$189,477,417	\$170,347,467	44.5%
E911 service	637,060	596,242	699,378	729,711	737,734	708,725	571,027	1,078,375	2,750,556	2,737,853	-76.7%
Telecom sales	11,697,528	11,992,112	11,681,054	12,321,643	12,018,133	12,416,819	13,177,014	4,772,796	-	-	79.3%
Sales tax	22,426,753	22,920,353	22,022,527	21,206,724	20,862,730	21,930,591	23,572,320	23,276,742	22,432,446	20,955,339	7.0%
Utility tax	6,279,595	6,262,714	5,891,989	6,511,120	6,321,381	6,137,436	6,112,238	8,017,460	9,254,101	9,515,933	-34.0%
Cellular telephone tax	-	-	-	-	-	-	-	2,138,607	3,117,614	2,848,339	0.0%
Consumption tax	709,174	700,021	653,430	674,265	776,672	728,656	704,570	695,383	774,586	641,699	10.5%
Business license tax	15,750,751	16,200,207	16,109,141	15,115,176	15,266,938	14,676,421	15,116,393	14,770,199	14,701,673	13,391,073	17.6%
Rental car tax	1,041,657	1,151,221	1,229,911	1,044,775	1,021,610	1,058,659	996,093	966,780	932,481	870,813	19.6%
Franchise license tax	-	-	-	-	-	-	-	890,920	1,732,167	1,670,013	0.0%
Cable television tax	-	-	-	-	-	-	-	1,225,349	2,108,165	2,006,039	0.0%
Motor vehicle license tax	4,103,933	3,876,035	3,917,451	3,880,996	3,922,803	3,905,814	3,531,053	3,578,087	3,585,645	3,585,609	14.5%
Bank stock tax	675,657	666,072	847,745	957,902	1,015,597	727,678	588,882	584,773	600,317	532,019	27.0%
Recordation and wills tax	1,265,779	1,370,840	1,407,159	1,065,889	1,263,938	1,461,537	2,219,287	2,120,046	2,535,995	1,969,391	-35.7%
Tobacco tax	5,102,091	5,228,287	4,799,234	4,269,564	4,160,343	4,119,169	4,205,798	4,406,514	4,622,565	4,639,855	10.0%
Hotel and motel room tax	3,178,730	3,008,260	3,191,992	3,064,515	2,969,053	3,130,281	3,454,926	3,386,331	2,802,362	2,686,120	18.3%
Restaurant food tax	22,873,051	22,082,728	18,835,979	17,767,348	17,765,937	18,074,235	18,348,254	17,943,384	16,649,811	14,779,660	54.8%
Amusement tax	665,301	482,469	457,436	453,712	493,079	548,722	563,673	560,836	569,643	566,599	17.4%
Tourism zone tax	11,032	-	-	-	-	-	-	-	-	-	100.0%
<b>Total Taxes</b>	<b>\$342,537,272</b>	<b>\$326,349,115</b>	<b>\$320,939,346</b>	<b>\$320,043,442</b>	<b>\$324,779,927</b>	<b>\$323,256,275</b>	<b>\$312,477,504</b>	<b>\$298,540,758</b>	<b>\$278,647,544</b>	<b>\$253,743,821</b>	<b>35.0%</b>

Note: Effective in FY 2007, all communication taxes (E-911, utility, cellular telephone, franchise license and cable television) are reported under telecom sales.

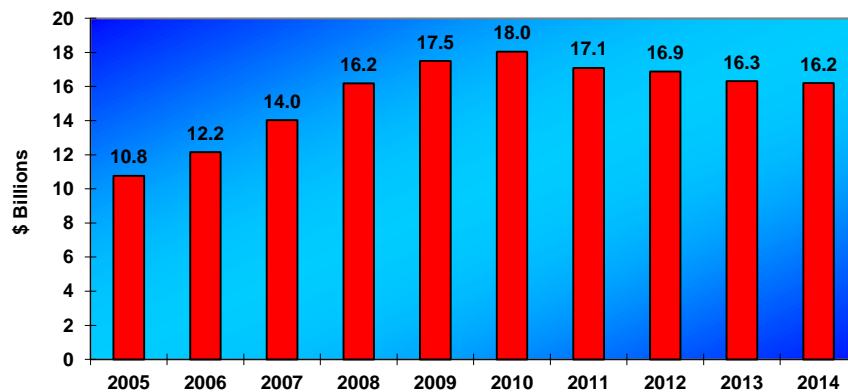
**City of Newport News, Virginia**  
**Assessed Value and Estimated Actual Value of Taxable Property**  
**Last Ten Fiscal Years**  
(In thousands of dollars)

Fiscal Year	Real Estate		Personal Property		Machinery and Tools		Public Utility		Less: Tax- Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value					
							Real Estate	Personal Property									
2005	\$	9,042,610	\$	1,024,049	\$	337,032	\$	204,572	\$	148,487	\$	-	\$	10,756,750	-	\$	-
2006		12,887,570		1,155,202		343,770		186,890		117,131		(2,538,300)		12,152,263	1.59		14,690,563
2007		15,141,893		1,161,864		352,403		180,706		92,112		(2,901,608)		14,027,370	1.55		16,928,978
2008		17,390,981		1,233,279		364,010		211,388		136,000		(3,157,425)		16,178,233	1.53		19,335,658
2009		19,011,429		1,195,193		397,899		250,995		163,492		(3,530,295)		17,488,713	1.51		21,019,008
2010		19,762,256		1,154,011		419,441		293,307		172,545		(3,753,027)		18,048,533	1.37		21,801,560
2011		18,600,158		1,165,494		438,747		326,889		173,108		(3,614,365)		17,090,031	1.40		20,704,396
2012		18,342,224		1,186,515		468,330		339,790		163,940		(3,622,298)		16,878,501	1.41		20,500,799
2013		17,744,690		1,221,798		486,090		333,266		163,292		(3,641,733)		16,307,403	1.45		19,949,136
2014		17,768,798		1,248,199		507,497		353,179		156,714		(3,826,649)		16,207,738	1.41		20,034,387

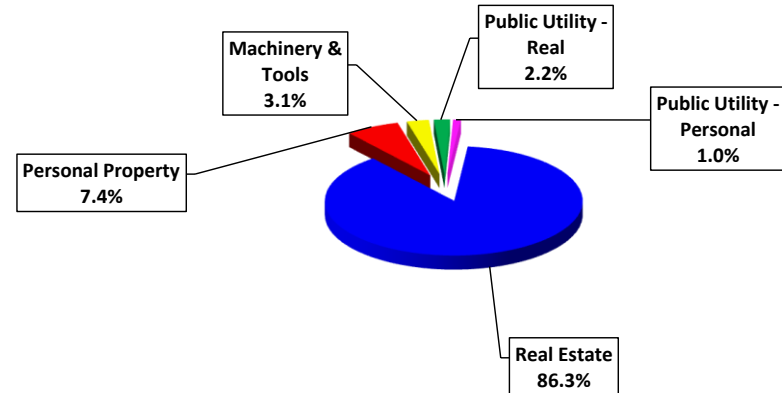
**Note:** P Prior to the implementation of GASB 44 in FY2006, assessed values were presented net of tax-exempt property.  
Prior to the implementation of GASB 44 in FY2006, total direct rate and estimated actual taxable value was not required.

Source: City of Newport News Real Estate Assessors Office

**Values of Taxable Properties Last Ten Years**



**Types of Taxable Property (2014)**

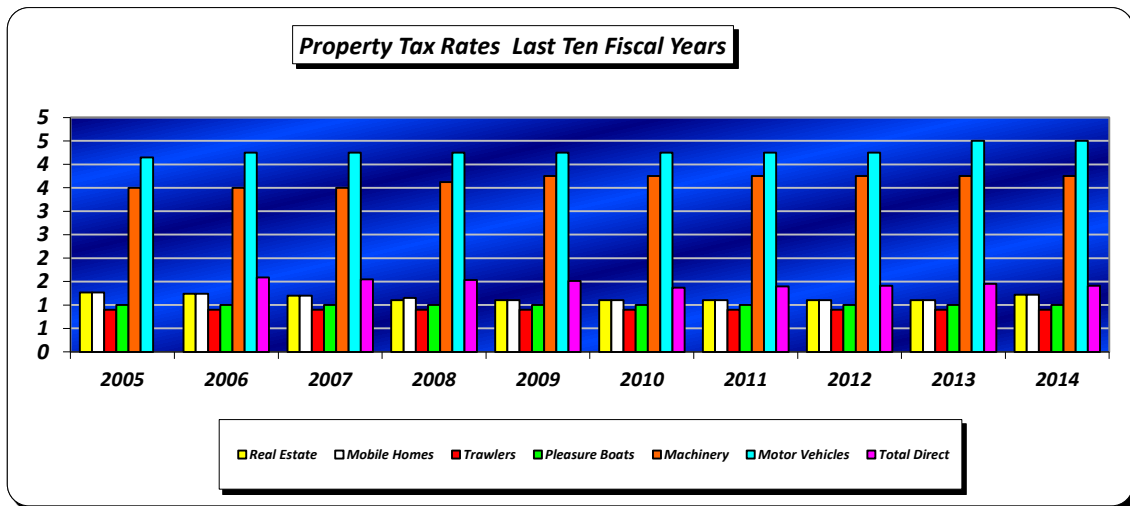


**City of Newport News, Virginia**  
**Direct and Overlapping Property Taxes**  
**Last Ten Fiscal Years**  
**(Rate per \$100 of assessed value)**

City Direct Rates							
Fiscal Year	Real Estate	Mobile Homes	Trawlers	Pleasure Boats	Machinery & Tools	Motor Vehicles	Total Direct Rate
2005	\$ 1.27	\$ 1.27	\$ 0.90	\$ 1.00	\$ 3.50	\$ 4.15	\$ -
2006	1.24	1.24	0.90	1.00	3.50	4.25	1.59
2007	1.20	1.20	0.90	1.00	3.50	4.25	1.55
2008	1.10	1.15	0.90	1.00	3.63	4.25	1.53
2009	1.10	1.10	0.90	1.00	3.75	4.25	1.51
2010	1.10	1.10	0.90	1.00	3.75	4.25	1.37
2011	1.10	1.10	0.90	1.00	3.75	4.25	1.40
2012	1.10	1.10	0.90	1.00	3.75	4.25	1.41
2013	1.10	1.10	0.90	1.00	3.75	4.50	1.45
2014	1.22	1.22	0.90	1.00	3.75	4.50	1.41

**Note:** Prior to the implementation of GASB 44 in FY06, total direct rate was not required.

Source: City of Newport News Office of the Commissioner of Revenue



**City of Newport News, Virginia  
Principal Property Tax Payers  
Current Year And Nine Years Prior  
(in thousands of dollars)**

	2014		2005	
	Taxable Assessed Value	Percentage of Assessments	Taxable Assessed Value	Percentage of Assessments
Huntington Ingalls Industries Inc *1	\$19,363	7.78%	\$11,336	7.56%
Canon Virginia Inc *2	4,505	1.81%	1,438	0.96%
The Mariners Museum (Riverside Hospital)	2,712	1.09%	889	0.59%
Dominion Virginia Power *5	2,476	0.99%	1,523	1.02%
Continental Automotive Systems Us Inc	1,819	0.73%	-	-
PR Patrick Henry L L C *6	1,590	0.64%	1,167	0.78%
Verizon Virginia Inc	1,305	0.52%	1,258	0.84%
Dominion Terminal Associates *3	1,212	0.49%	943	0.63%
Kinder Morgan Operation LP"C"	1,016	0.41%	449	0.30%
Virginia Natural Gas Inc	929	0.37%	411	0.27%
Inland Western Newport News	794	0.32%	-	-
Bottling Group L L C *8	591	0.24%	257	0.17%
Patrick Henry Hospital (Warwick Forest)	550	0.22%	-	-
DCO Realty Inc	515	0.21%	-	-
Oyster Point Residential L L C	471	0.19%	-	-
Meridian Parkside Apartments L L C	456	0.18%	-	-
Cox Communications Hampton Roads, Inc	454	0.18%	286	0.19%
CSX Transportation Inc	411	0.17%	317	0.21%
Radius Apartments	393	0.16%	-	-
BR Springhouse LLC	373	0.15%	-	-
Harbours L L C *4	-	-	314	0.21%
Ferguson Enterprises Corp	-	-	474	0.32%
Seimens - Bendix Automotive	-	-	1,874	1.25%
Shorewood Packaging Corp Of Va	-	-	526	0.35%
Seimens Credit *7	-	-	275	0.18%
United Dominion Realty Trust Inc	-	-	435	0.29%
Newport-Oxford Associates Ltd	-	-	317	0.21%
Lea Company	-	-	259	0.17%
<b>Total</b>	<b>\$41,935</b>	<b>16.85%</b>	<b>\$24,748</b>	<b>16.50%</b>

**Note: Figures include both personal property and real estate tax assessments for these taxpayers**

Source: City of Newport News Real Estate Assessors Office and Office of the Commissioner of Revenue

\*1 Previously Northrup Grumman Shipbuilding Inc and previously Newport News Shipbuilding and Dry Dock Company

\*2 Previously Canon USA Inc

\*3 Previously Peninsula Port Authority - Dominion Terminal Associates

\*4 Previously Harbours Associates

\*5 Previously Virginia Electric & Power Company

\*6 Previously Crown American Financing

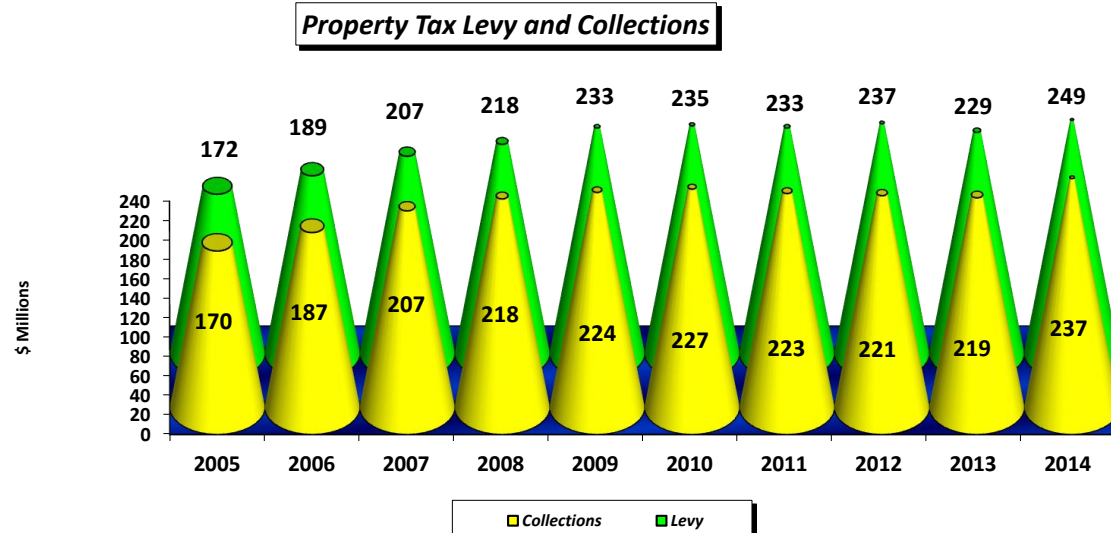
\*7 Previously Siemens Financial Services

\*8 Previously Pepsi-Cola Bottling Group

**City of Newport News, Virginia**  
**Property Tax Levies and Collections**  
**Last Ten Fiscal Years**  
(in thousands of dollars)

Fiscal Year	Tax Levy		Current Year		Prior Year Amount	Collections in Subsequent Years	Total Collections for Year	
			Amount	% of Levy			Amount	% of Levy
2005	\$	171,852	\$ 162,199	94.4%	\$ 7,497	\$ -	\$ 169,696	98.7%
2006		188,870	180,295	95.5%	-	6,355	186,650	98.8%
2007		207,427	200,041	96.4%	-	7,236	207,277	99.9%
2008		218,395	210,243	96.3%	-	7,831	218,074	99.9%
2009		232,507	224,199	96.4%	-	7,592	231,791	96.4%
2010		235,225	227,030	96.5%	-	6,476	233,506	96.5%
2011		233,380	222,804	95.5%	-	6,115	228,919	95.5%
2012		236,875	220,914	93.3%	-	7,550	228,464	93.3%
2013		229,071	218,911	95.6%	-	7,267	218,911	95.6%
2014		248,820	236,734	95.1%	-	Not Available	236,734	95.1%

**Note:** Prior to the implementation of GASB 44 in FY 2006, collections in subsequent years was not required to be reported by tax year.



**City of Newport News, Virginia**  
**Ratios of Outstanding Debt by Type**  
**Last Ten Fiscal Years**  
(Dollars in thousands, except per capita)

	Fiscal Year									
	<b>**2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Population</b>	182,020	180,726	180,719	180,719	193,172	193,212	187,200	186,000	186,000	185,240
<b>Personal Income</b>	\$ -	\$ -	\$ 6,672,878	\$ 6,241,927	\$ 5,946,073	\$ 6,011,449	\$ 5,941,588	\$ 5,500,739	\$ 5,225,657	\$ 5,086,295
<b>Governmental Activities:</b>										
General Obligation Bonds*	415,933	388,206	366,401	353,639	383,753	413,482	411,159	411,567	401,020	394,354
Guaranty of Peninsula Airport Bonds	-	-	4,180	4,490	4,780	5,055	5,315	5,565	5,800	6,000
Literary Fund	5,458	5,878	6,298	6,717	7,237	8,034	8,830	9,321	2,895	3,564
Capital Leases	571	-	-	-	-	388	53	140	219	293
Land Lease Payable*	961	1,167	1,362	-	-	-	-	-	-	-
Land Purchase Payable*	142	600	633	-	-	-	-	-	-	-
<b>Business-type Activities:</b>										
Public Utility Bonds*	141,464	153,005	166,107	172,695	186,330	217,720	208,855	195,155	152,675	165,220
<b>Total Primary Government</b>	<b>\$ 564,529</b>	<b>\$ 548,856</b>	<b>\$ 544,981</b>	<b>\$ 537,541</b>	<b>\$ 582,100</b>	<b>\$ 644,679</b>	<b>\$ 634,212</b>	<b>\$ 621,748</b>	<b>\$ 562,609</b>	<b>\$ 569,431</b>
<b>Percentage of Personal Income</b>	0.0%	0.0%	8.2%	8.6%	9.8%	10.7%	10.7%	11.3%	10.8%	11.2%
<b>Net Bonded Debt Per Capita</b>	<b>\$ 3,101</b>	<b>\$ 3,037</b>	<b>\$ 3,016</b>	<b>\$ 2,974</b>	<b>\$ 3,013</b>	<b>\$ 3,337</b>	<b>\$ 3,388</b>	<b>\$ 3,343</b>	<b>\$ 3,025</b>	<b>\$ 3,074</b>

\*Amounts for FY2012 were changed to correct amounts.

\*\*Implementation of GASB 65

**Note: Population figures are derived as follows: 2005 - 2008 City estimates, 2009 - 2014 Census Bureau estimates.**

**Note: Personal Income figures were not available for FY2013 and FY2014.**

**City of Newport News, Virginia**  
**Ratios of General Bonded Debt Outstanding**  
**Last Ten Fiscal Years**  
**(in thousands of dollars)**

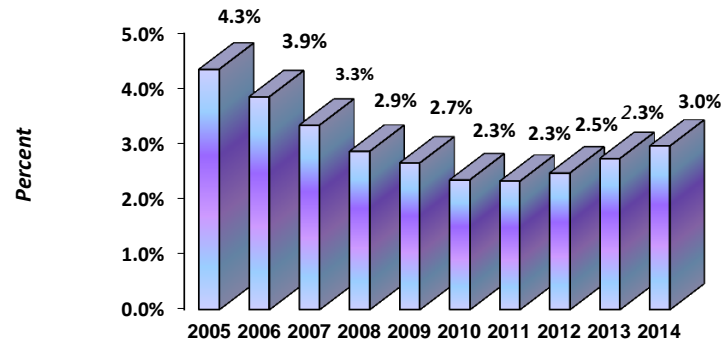
Fiscal Year	Population	Assessed Value of Real Property	General Obligation Bonds	Less Debt Service	Net Bonded Debt	Net Bonded Debt as % of Assessed Valuation	Net Bonded Debt Per Capita
2005	185,240	\$ 9,042,610	\$ 394,354	\$ 1,137	\$ 393,217	4.3%	\$ 2,123
2006	186,000	10,404,207	401,020	319	400,701	3.9%	2,154
2007	186,000	12,293,454	411,567	1,307	410,260	3.3%	2,206
2008	187,200	14,286,003	411,159	2,139	409,020	2.9%	2,185
2009	193,212	15,527,921	413,482	1,258	412,224	2.7%	2,134
2010	193,172	16,059,444	383,753	6,511	377,242	2.3%	1,953
2011	180,719	15,037,654	353,639	4,341	349,298	2.3%	1,933
2012	180,719	14,768,666	* 366,401	1,184	365,217	2.5%	2,021
2013	180,726	14,150,367	388,206	1,375	386,831	2.7%	2,140
2014	182,020	13,996,117	** 415,933	1,560	414,373	3.0%	2,277

**Note:** Population figures are derived as follows: 2005 - 2008 City estimates, 2009 - 2014 Census Bureau estimates.

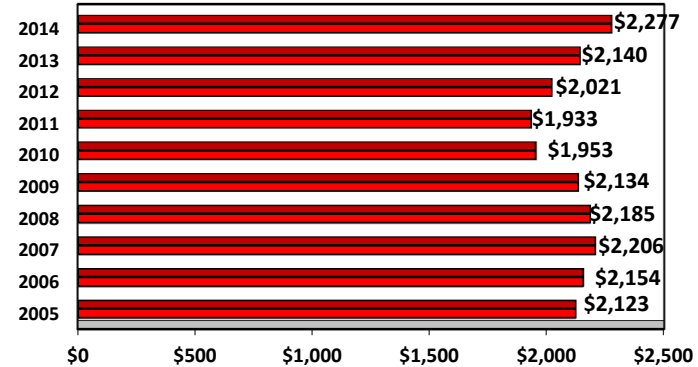
\* Corrected FY 2012 amount for GOB.

\*\* Implementation of GASB 65

**Debt as % of Assessed Property Value**

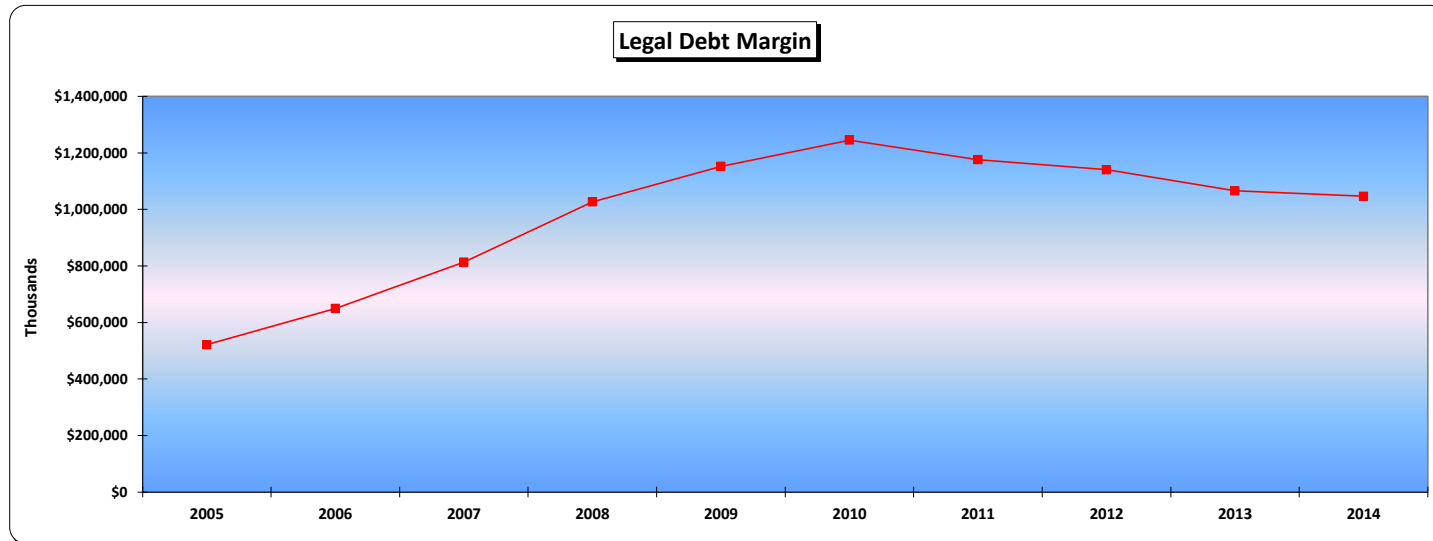


**Debt per Capita**



**City of Newport News, Virginia**  
**Legal Debt Margin Information**  
**Last Ten Fiscal Years**

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Assessed Value of Real Estate:</b>										
General	\$13,996,117,386	\$14,150,366,660	\$14,768,666,300	\$15,037,654,401	\$16,059,444,443	\$15,527,920,717	\$14,286,002,924	\$12,293,453,737	\$10,404,206,752	\$9,042,610,300
Public Service Corporations	352,225,787	333,265,887	339,789,784	326,888,523	293,307,435	250,994,845	211,388,045	180,706,024	186,889,718	204,600,000
<b>Total assessed value</b>	<b>14,348,343,173</b>	<b>14,483,632,547</b>	<b>15,108,456,084</b>	<b>15,364,542,924</b>	<b>16,352,751,878</b>	<b>15,778,915,562</b>	<b>14,497,390,969</b>	<b>12,474,159,761</b>	<b>10,591,096,470</b>	<b>9,247,210,300</b>
<b>Total debt limit (10% of Total Assessed Value)</b>	<b>1,434,834,317</b>	<b>1,448,363,255</b>	<b>1,510,845,608</b>	<b>1,536,454,292</b>	<b>1,635,275,188</b>	<b>1,577,891,556</b>	<b>1,449,739,097</b>	<b>1,247,415,976</b>	<b>1,059,109,647</b>	<b>924,721,030</b>
<b>Bonds Outstanding:</b>										
General Obligation	352,775,000	343,595,000	322,830,000	311,700,000	341,405,000	378,499,990	371,155,000	378,656,195	358,855,000	353,330,000
General Obligation: Virginia Public School Authority (VPSA)	3,099,111	3,749,472	4,382,117	5,256,983	6,105,937	6,929,403	7,728,827	8,506,195	9,263,363	10,000,000
General Obligation: Virginia Resources Authority (VRA) Loan Fund	24,727,534	27,228,156	29,583,326	31,776,867	30,761,968	21,997,022	25,644,960	25,705,339	25,121,275	22,668,400
General Obligation: Virginia Municipal Pool Loans (VMPL)	737,565	1,312,565	1,887,565	2,462,565	3,037,565	3,612,565	4,187,565	4,762,565	5,337,565	5,912,600
Guaranty of Peninsula Airport Bonds	-	-	4,180,000	4,490,000	4,780,000	5,055,000	5,315,000	5,565,000	5,800,000	6,000,000
Literary Fund	5,458,122	5,877,889	6,297,656	6,717,425	7,598,441	8,034,421	8,829,688	9,320,937	2,894,833	3,564,100
Qualified Zone Academy Bonds (QZAB)	2,442,494	2,442,494	2,442,494	2,442,494	2,442,494	2,442,494	2,442,494	2,442,494	2,442,494	2,442,500
Capital leases	570,701	-	-	-	360,965	387,811	53,406	139,513	219,145	292,800
Amount available in Debt Service Fund	(1,559,619)	(1,467,172)	(1,183,546)	(4,370,897)	(6,511,346)	(1,258,059)	(2,138,839)	(1,306,632)	(319,453)	(1,137,300)
<b>Total debt outstanding</b>	<b>388,250,908</b>	<b>382,738,404</b>	<b>370,419,612</b>	<b>360,475,437</b>	<b>389,981,024</b>	<b>425,700,647</b>	<b>423,218,101</b>	<b>433,791,606</b>	<b>409,614,222</b>	<b>403,073,100</b>
<b>Legal debt margin</b>	<b>\$1,046,583,409</b>	<b>\$1,065,624,851</b>	<b>\$1,140,425,996</b>	<b>\$1,175,978,855</b>	<b>\$1,245,294,164</b>	<b>\$1,152,190,909</b>	<b>\$1,026,520,996</b>	<b>\$813,624,370</b>	<b>\$649,495,425</b>	<b>\$521,647,930</b>
<b>Total net debt applicable to the limit as a % of debt limit</b>	<b>72.94%</b>	<b>73.57%</b>	<b>75.48%</b>	<b>76.54%</b>	<b>76.15%</b>	<b>73.02%</b>	<b>70.81%</b>	<b>65.22%</b>	<b>61.32%</b>	<b>56.41%</b>



**City of Newport News, Virginia  
Pledged-Revenue Coverage  
Current and Prior Fiscal Years**

	Fiscal Year						
	2014	2013	2012	2011	2010	2009	2008
<b>Revenues</b>	\$ 85,580,834	\$ 76,099,474	\$ 73,337,822	\$ 74,497,013	\$ 72,719,343	\$ 73,817,176	\$ 76,003,756
<b>Less the Sum of:</b>							
Operating Expenses	43,866,179	44,089,728	43,538,269	42,366,225	42,696,818	41,863,251	40,055,421
120% of Max Debt Service on Revenue Bonds	3,129,200	3,129,200	3,129,200	3,129,200	3,129,200	27,555,365	3,118,485
100% of Max Debt Service on general obligation water bonds	16,006,224	16,356,343	16,710,108	19,355,120	16,356,343	16,356,343	19,552,167
	63,001,603	63,575,271	63,377,577	64,850,545	62,182,361	85,774,959	62,726,073
<b>Equals (1)</b>	<u>\$ 22,579,231</u>	<u>\$ 12,524,203</u>	<u>\$ 9,960,245</u>	<u>\$ 9,646,468</u>	<u>\$ 10,536,982</u>	<u>\$ (11,957,783)</u>	<u>\$ 13,277,683</u>

(1) Must be positive to meet subsection (i) of the Additional Bonds Test.

Note: Operating expenses exclude depreciation.

**City of Newport News, Virginia**  
**Demographic and Economic Statistics**  
**Last Ten Fiscal Years**

Fiscal Year	Population	Personal Income (In thousands)	Per Capita Income	Median Age	School Enrollment	Unemployment Rate
2005	185,240	\$ 5,086,295	\$ 25,233	32	30,827	4.8%
2006	186,000	5,225,657	26,782	32	30,635	4.2%
2007	186,000	5,500,739	28,436	33	30,218	3.4%
2008	187,200	5,941,588	28,990	34	29,441	4.0%
2009	193,212	6,011,449	31,120	33	29,023	6.5%
2010	193,172	5,946,073	32,921	32	28,610	8.0%
2011	180,719	6,241,927	34,752	32	28,183	7.6%
2012	180,719	6,672,878	36,923	32	27,701	7.4%
2013	180,726	-	-	32	29,222	6.9%
2014	182,020	-	-	32	29,268	6.4%

**Sources:**

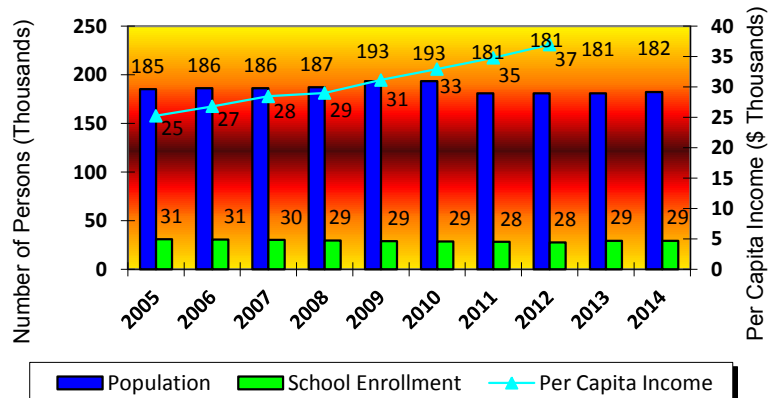
Note: Population figures are derived as follows: 2005 - 2008 City estimates, 2009 - 2014 Census Bureau estimates.

Personal Income: 2005 - 2007 Virginia Employment Commission; 2008-2012 Bureau of Economic Analysis; 2013 - 2014 were not available at year-end.

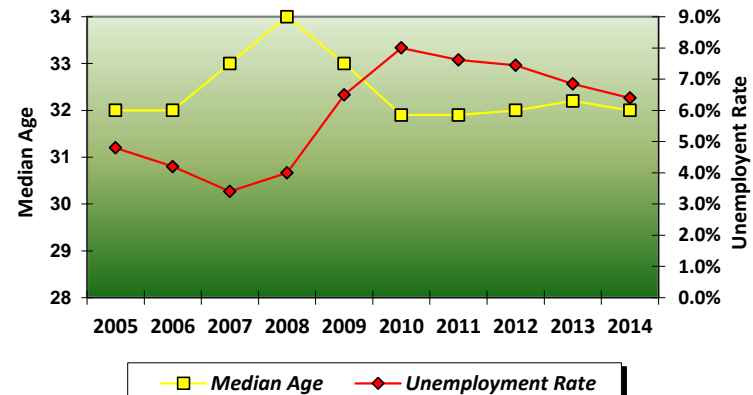
Per Capita Income: 2005 Census Bureau; 2005, 2006 - 2012 Bureau of Economic Analysis; 2013 - 2014 were not available at year-end.

Unemployment Rate: 2005 - 2009 Virginia Employment Commission; 2010-2014 Virginia Workforce Connection.

**Population, School Enrollment, Per Capita Income**



**Median Age - Unemployment**



**City of Newport News, Virginia  
Principal Employers  
Current Year and Nine Years Prior**

	2014		2005	
	Employees	% of Total City Employment	Employees	% of Total City Employment
Huntington Ingalls Industries, Inc.	10,000 - 25,000	19.74%	10,000 - 25,000	20.08%
Newport News Public Schools	1,000 - 5,000	3.38%	1,000 - 5,000	3.44%
Riverside Regional Medical Center	1,000 - 5,000	3.38%	1,000 - 5,000	3.44%
U. S. Department of Defense	1,000 - 5,000	3.38%	1,000 - 5,000	3.44%
City of Newport News	1,000 - 5,000	3.38%	1,000 - 5,000	3.44%
Ferguson Enterprises Inc.	1,000 - 5,000	3.38%	500 - 999	0.86%
U. S. Department of Army and Air Force	1,000 - 5,000	3.38%	500 - 999	0.86%
Canon	1,000 - 5,000	3.38%	500 - 999	0.86%
Christopher Newport University	1,000 - 5,000	3.38%	500 - 999	0.86%
Wal Mart	1,000 - 5,000	3.38%	500 - 999	0.86%
Siemen's Automotive Corporation	250-499	0.42%	500 - 999	0.86%
APAC Customer Services	-	-	500 - 999	0.86%
<b>Total</b>	<b>19,250 - 75,499</b>	<b>50.63%</b>	<b>17,500 - 51,993</b>	<b>39.87%</b>

Source: Virginia Employment Commission

**City of Newport News, Virginia**  
**Full-Time City Government Employees by Function/Program**  
**Last Ten Fiscal Years**

Full-Time City Government Employees as of June 30										
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Fund, Function, Activity and Elements										
General Fund:										
General Government Administration:										
Legislative:										
City Council	7	7	7	7	7	7	7	7	7	7
City Clerk	4	5	5	5	5	5	5	5	5	5
General and Financial Administration:										
City Manager	18	18	18	18	21	21	23	23	12	12
Human Resources	15	18	19	19	18	18	20	20	18	17
City Attorney	18	18	18	18	18	18	19	19	18	18
Management/Legislative Services	0	0	0	0	0	0	0	0	10	10
Internal Auditor	6	6	6	6	6	6	7	7	7	7
Commissioner of the Revenue	40	40	40	40	42	42	40	40	40	40
Real Estate Assessor	22	22	22	22	23	23	23	23	23	23
City Treasurer	33	33	33	33	34	34	35	35	34	34
Finance	18	18	18	18	18	18	19	19	19	19
Budget and Evaluation	7	7	7	7	7	7	7	7	7	7
Office of Self-Insurance	6	6	6	6	9	9	9	9	9	9
Purchasing	20	23	23	23	23	23	24	24	24	24
Information Technology	56	57	57	58	63	63	66	66	65	65
Customer Service - 311 Call Center	10	6	-	-	-	-	-	-	-	-
Board of Elections:										
Registrar	5	5	5	5	5	5	5	5	5	5
Total General Government Administration	285	289	284	285	299	299	309	309	303	302
Judicial administration:										
Courts:										
Circuit Courts	6	6	6	7	7	7	7	7	7	7
Office of the Magistrate	6	6	6	6	6	6	6	6	6	6
Clerk of the Circuit Court	23	23	24	24	27	27	27	27	27	27
Court Services	2	2	2	2	2	2	2	2	2	2
Commonwealth's Attorney	49	49	49	49	50	50	51	47	41	41
Total Judicial Administration	86	86	87	88	92	92	93	89	83	83
Public Safety:										
Law Enforcement and Traffic Control:										
Police Department	586	586	586	587	593	593	578	578	564	539
Emergency Communications	-	-	-	-	-	-	4	4	4	4
Fire and Rescue Services:										
Fire Department	380	380	382	382	371	371	372	377	374	374
Correction and Detention:										
Sheriff	215	217	217	217	222	222	202	198	193	187
Adult Corrections	60	60	61	62	69	69	73	72	72	69
Juvenile Detention	126	125	130	128	143	143	168	171	178	178
Inspections:										
Codes Compliance	38	38	39	39	40	40	41	41	41	42
Total Public Safety	1,405	1,406	1,415	1,415	1,438	1,438	1,438	1,441	1,426	1,393
Public Works:										
Engineering	78	78	84	85	93	93	98	97	97	95
Project Services	-	-	-	-	-	-	-	-	-	1
Public Works Administration	152	157	158	158	170	170	167	167	159	151
Total Public Works	230	235	242	243	263	263	265	264	256	247
Welfare:										
Human Services	387	391	391	391	397	397	396	394	394	390
Office of Youth Development	-	-	-	-	-	-	9	9	9	9
Total Welfare	387	391	391	391	397	397	405	403	403	399
Parks and Library:										
Parks and Recreation	108	107	105	106	117	117	122	120	112	112
Parks and Recreation Revolving Fund	93	94	95	95	98	98	95	93	89	75
Library	53	56	56	57	61	61	67	67	63	62
Total Parks, Recreation and Library	254	257	256	258	276	276	284	280	264	249
Community Development:										
Planning and Community Development:										
Development	17	17	17	18	20	20	20	20	18	18
Planning	12	13	13	13	14	14	15	15	14	14
Total Community Development	29	30	30	31	34	34	35	35	32	32
Total General Fund										
	2,676	2,694	2,705	2,711	2,799	2,799	2,829	2,821	2,767	2,705
OTHER OPERATING FUNDS										
Public Utilities Fund	353	365	365	365	370	370	381	372	374	374
Vehicle & Equipment Services Fund	39	39	40	40	40	40	43	40	45	45
Solid Waste Revolving Fund	64	61	61	66	66	66	68	68	69	66
Wastewater Fund	99	97	95	87	87	87	76	76	78	77
Stormwater Management Fund	88	84	81	79	79	79	84	84	83	61
Pension Fund	6	6	6	6	7	7	7	7	7	7
Economic and Industrial Authority	5	5	5	5	5	5	5	4	4	4
Parking Authority Fund	2	2	2	2	2	2	2	1	1	1
Law Library	1	1	1	1	2	2	2	1	1	1
Schools	3,937	4,026	4,076	4,138	4,296	4,293	4,420	4,468	4,446	4,389
Peninsula Regional Animal Shelter	11	0	0	0	0	0	0	0	0	0
Total Other Operating Funds	4,605	4,686	4,732	4,789	4,954	4,951	5,088	5,121	5,108	5,025
TOTAL CITY EMPLOYEES										
	7,281	7,380	7,437	7,500	7,753	7,750	7,917	7,942	7,875	7,730
Source: City Adopted Budget.										

Source: City Adopted Budget.

**City of Newport News, Virginia**  
**Operating Indicators by Function/Program**  
**Last Ten Fiscal Years**

Function/Program	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General Government										
<b>Retail Sales (Millions)</b>	2,242	2,202	2,109	1,893	1,923	1,873	2,021	2,122	2,029	1,743
Police										
<b>Calls for Service</b>	170,317	169,877	255,267	250,126	251,346	179,975	219,634	230,065	222,939	222,939
Number of Offenses	20,601	20,888	22,516	21,386	23,905	30,787	23,269	24,415	25,336	24,263
Adult Arrests	15,182	9,804	14,759	15,065	15,093	15,496	17,477	18,592	19,288	19,082
Traffic Summonses	29,974	28,383	32,961	15,682	26,611	22,944	23,417	27,072	26,778	37,452
Traffic Accidents	2,756	2,641	2,517	2,480	2,510	3,068	3,484	3,825	3,620	3,341
Fire										
<b>Fire Calls</b>	-	-	-	-	-	12,718	12,569	6,134	12,022	11,702
EMS Calls	-	-	-	-	-	21,492	24,854	24,872	23,931	23,764
Structure Fires	-	-	-	-	-	517	430	484	381	285
<b>Emergency Medical Service/Rescue*</b>	27,574	22,017	24,674	22,190	21,845	-	-	-	-	-
Public Assistance*	1,660	1,651	1,461	1,569	1,483	-	-	-	-	-
Good Intent Calls*	150	1,685	1,305	1,309	1,457	-	-	-	-	-
False/Alarm / Alarm Malfunction*	778	1,375	1,348	1,418	1,428	-	-	-	-	-
Hazardous Conditions*	572	637	930	720	879	-	-	-	-	-
All Fires*	610	639	704	870	776	-	-	-	-	-
Explosions*	7	14	18	2	18	-	-	-	-	-
Weather Event/Other*	4	57	51	27	16	-	-	-	-	-
Sheriff										
<b>City Jail Capacity</b>	300	300	300	300	248	248	248	248	248	248
Codes Compliance										
<b>Building Permits Issued</b>	1,589	1,985	2,155	1,759	1,821	2,079	2,203	2,640	2,680	2,226
Residential Construction	230	222	340	262	198	91	130	192	257	308
Commercial Construction	69	49	102	81	37	53	59	65	69	101
Waterworks										
<b>Gallons Delivered Per Day (Millions)</b>	35	35	36	40	40	42	44	44	44	43
Meters Connected**	133,380	132,743	132,439	134,403	131,924	128,614	124,956	124,677	123,857	128,090
Public Works										
<b>Potholes Repaired</b>	18,148	15,305	15,125	19,216	17,675	7,742	9,697	12,543	13,542	17,630
Streets Resurfaced (Miles)	8	7	8	9	9	10	11	8	22	21
Recyclables collected (Tons)	7,325	6,957	6,698	7,641	7,463	9,924	10,538	10,335	10,653	91,411
Parks and Recreation										
<b>Park Vistors (Millions) (All Parks)</b>	4	4	4	4	4	4	4	4	4	-
Celebration of lights vistors	103,491	109,700	112,854	93,428	91,665	103,341	103,400	111,786	95,510	109,223
Tourism visitor inquiries	77,224	79,088	87,732	80,206	79,610	108,412	129,495	141,774	141,300	148,766
Tourism web site visits****	198,520	215,849	147,875	126,754	138,048	117,588	116,109	93,418	105,374	129,682
Vistor guides distributed	200,000	165,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Library										
<b>Circulation Transactions</b>	951,241	1,009,939	1,062,759	941,934	847,367	767,131	715,613	688,569	668,092	625,276
Reference	321,102	174,356	178,117	140,623	140,071	129,196	126,182	139,285	122,543	110,053
Computer use	256,929	244,971	240,257	235,080	231,601	206,687	176,168	177,092	147,035	126,488
Program attendance	16,272	26,206	14,526	24,552	14,490	16,594	12,323	13,785	17,548	15,074
Visitor count***	829,290	889,407	759,840	814,129	997,912	973,869	942,224	909,939	877,477	808,196
Meeting room use	916	830	1,126	1,193	1,218	1,223	1,330	1,140	1,029	1,029
Schools										
<b>Average Daily Students</b>	29,268	29,222	27,701	28,183	28,610	29,023	29,441	30,218	30,635	30,827

Sources: Various city departments.

\*In 2009, the Fire Dept implemented a new incident reporting system which uses a national coding system that identifies multiple types of service calls.

\*\*Corrections made for service connections for Years 2008-2010

\*\*\*Library: New counters installed FY2011

\*\*\*\*Starting FY2013 includes mobile web site visits

**City of Newport News, Virginia**  
**Capital Asset Statistics by Function/Program**  
**Last Ten Fiscal Years**

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b><u>Function/Program</u></b>										
<b>Police</b>										
Patrol Units	238	245	237	253	240	224	221	224	222	222
Boat	2	3	3	2	2	1	1	1	1	1
<b>Fire</b>										
Stations	11	11	11	11	11	10	10	10	10	10
Fire Trucks	25	26	26	23	23	25	24	22	20	19
Ambulances	17	17	17	17	17	17	16	16	16	16
Boats	2	2	2	2	2	2	2	2	1	1
<b>Engineering</b>										
Streetlights	20,308	20,125	20,033	19,780	19,645	19,616	20,411	19,791	19,760	18,660
Traffic Lights	257	253	253	255	253	253	258	256	256	255
<b>Parks and Recreation</b>										
Parks	36	36	35	35	35	35	32	32	19	19
Acreage	8,697	9,120	9,119	9,119	9,119	9,119	9,119	9,939	8,978	8,978
Athletic Fields	154	97	97	97	97	97	102	102	77	77
Mini-parks	3	3	3	3	3	3	3	4	6	6
Beach/Waterfront Areas	8	8	8	8	8	8	4	4	6	6
Boat Ramps	7	7	7	7	7	9	5	5	3	3
Golf Courses	2	2	2	2	2	2	2	2	2	2
Swimming Pools	3	3	3	3	3	3	3	3	3	3
Tennis Courts (free)	57	57	57	57	57	65	56	57	60	60
Tennis Courts (pay)	24	24	24	24	24	20	20	24	20	20
Squares	3	3	3	3	3	3	2	5	3	3
<b>Library</b>										
Books	268,173	287,595	273,640	325,370	324,531	340,733	333,176	464,194	456,791	444,328
Paperbacks	17,895	17,497	17,374	19,914	21,276	21,173	20,382	24,758	23,443	19,047
Videos/DVD's	36,793	32,714	26,859	26,270	21,259	19,910	15,128	12,821	11,330	9,416
Cassettes/Compact Disks	20,910	20,362	20,960	22,911	20,605	16,359	12,453	21,227	19,683	18,202
Microfilm	1	-	-	-	-	-	5,320	9,216	9,176	9,124
Microfiche	-	-	-	-	-	-	-	1,060	1,060	1,060
<b>Waterworks</b>										
Miles of Pipe	1,746	1,748	1,746	1,798	1,780	1,786	1,785	1,781	1,772	1,763
Fire Hydrants	10,987	10,939	10,874	10,821	10,700	10,650	10,129	9,944	9,843	9,704
<b>Public Works</b>										
Refuse Carts	77,619	78,354	79,056	82,023	76,607	76,729	76,725	76,202	76,491	76,029
Streets (miles)	505	505	666	505	505	504	504	503	503	502
Lanes (miles)	1,515	1,515	1,513	1,191	1,184	1,183	1,183	1,180	1,180	1,177
Sanitary sewers (miles)*	699	709	709	554	572	572	708	708	602	602
Storm sewers (miles)*	717	542	542	542	487	487	659	605	605	605
Pump Stations	182	180	185	177	179	179	175	171	170	-
<b>Schools</b>										
Early Childhood centers	4	4	4	4	4	4	4	4	4	4
Elementary schools	24	24	24	25	26	26	26	25	27	27
Middle schools	7	7	7	7	7	7	8	8	7	7
High schools	5	5	5	5	5	5	5	5	5	5
Elem-Middle combo schools	1	1	1	1	1	1	1	1	1	1

**Sources:** Various city departments.

\* For 2009 Public Works consulted with Engineering to verify a more accurate accounting of the actual miles of sewers.

**Report of Independent Auditor 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***

To the Honorable Members of City Council  
City of Newport News, Virginia

We have audited, in accordance with the 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*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newport News, Virginia (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 25, 2014. That report recognizes that the City implemented two new accounting standards effective July 1, 2013. Our report includes a reference to other auditors who audited the financial statements of the Peninsula Airport Commission, a component unit of the City. This report does not include the results of the other auditors testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 a 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 City'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* and five instances of noncompliance that are required to be reported under the *Specifications for Audits of Counties, Cities and Towns*, which are described in the accompanying schedule of findings and questioned costs as items 2014-002 through 2014-006.

**City of Newport News, Virginia's Response to Findings**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Cheryl Behrman CP". The signature is written in a cursive style.

Richmond, Virginia  
November 25, 2014

## **Report of Independent Auditor on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133**

To the Honorable Members of City Council  
City of Newport News, Virginia

### **Report on Compliance for Each Major Federal Program**

We have audited the City of Newport News, Virginia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Newport News, Virginia's (the "City") major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-001, that we consider to be a significant deficiency.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Richmond, Virginia  
November 25, 2014

**CITY OF NEWPORT NEWS, VIRGINIA**  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2014

Federal Granting Agency/Recipient State Agency	CFDA Number	Federal Expenditures
DEPARTMENT OF AGRICULTURE		
Pass-through Payments:		
Department of Social Services:		
State Administrative Matching Grants for Food Stamp Program (765-460-03; 765-452-13)	10.561	\$ 3,250,402
Department of Agriculture:		
Food Distribution-Commodities	10.558	599
School Lunch Program-Commodities	10.555	8,149
Department of Education:		
School Breakfast Program (777-360-01; 777-360-03)	10.553	115,278
Total Child Nutrition Cluster		123,427
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
Direct Payments:		
Community Development Block Grant Program		
Community Development Block Grants (B11-MC-51-0015, B12-MC-51-0015)	14.218	1,238,475
Pass-through Payments:		
Department of Housing & Community Development:		
Neighborhood Stabilization Program (08-NSP-05)	14.228	218,854
Home Investment in Affordable Housing (M-07-MC-51-0202, M13-MC-51-0202)	14.239	1,445,223
Economic Development Initiative Special Projects (B08-SP-VA-0709)	14.251	28,121
DEPARTMENT OF JUSTICE		
Direct Payments -		
Office of Justice Programs:		
Public Safety Partnership & Community Policing Grants (2010-CK-WX-0248)	16.710	153,412
Edward Byrne Memorial Justice Assistance Grants (2010-DJ-BX-0899)	16.738	120,296
Violence Prevention Demonstration Program 2013-MU-FX-K002	16.123	55,075
Pass-through Payments:		
Department of Criminal Justice Service:		
Victims of Crime Act (VOCA) (140-390-01)	16.575	37,037
Drug Control & System improvement - Formula Grant (140-390-01)	16.579	177,168
Office of Juvenile Justice & Delinquency Prevention		
Juvenile Accountability Incentive Block Grants (140-390-01)	16.523	10,889
DEPARTMENT OF TRANSPORTATION		
Pass-through Payments:		
Va Department of Transportation:		
Highway Planning & Construction	20.205	3,308,349
Va Department of Motor Vehicles:		
DMV Select Enforcement	20.607	48,595
NATIONAL ENDOWMENT FOR THE HUMANITIES		
Direct Payments -		
N A & H Youth Program Award	45.024	2,309
Totals, page 1		\$ 10,218,231

**CITY OF NEWPORT NEWS, VIRGINIA**  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2014

Federal Granting Agency/Recipient State Agency	CFDA Number	Federal Expenditures
DEPARTMENT OF ENERGY		
Direct Payments:		
Energy Efficiency & Conservation Block Grant Prgm-ARRA (DE-SC0002677)	81.128	\$ -
DEPARTMENT OF HEALTH & HUMAN SERVICES		
Pass-through Payments:		
Department of Social Services:		
Affordable Care Act MIECH Visiting Program	93.505	292,229
Promoting Safe and Stable Families (765-469-01)	93.556	31,251
Temporary Assistance for Needy Families (765-452-01; 765-460-03)	93.558	2,802,003
Refugee and Entrant Assistance (765-460-03; 765-491-02)	93.566	120,101
Low-Income Home Energy Assistance (765-460-03)	93.568	282,326
Child Care and Development Block Grant Act of 1990 (765-452-15)	93.575	(54)
Child Care and Development Mandatory Matching Funds (765-460-03)	93.596	<u>377,066</u>
Total Child Care Cluster		377,012
Chafee Education and Training Vouchers Program (765-469-01)	93.599	13,789
Child Welfare Services State Grants (765-460-06)	93.645	18,434
Foster Care - Title IV-E (765-460-03; 765-460-06; 765-469-01)	93.658	1,305,860
Adoption Assistance (765-460-03; 765-469-03)	93.659	1,748,651
Social Services Block Grant (765-460-03; 765-468-02; 765-469-01)	93.667	2,072,398
Independent Living (765-460-03; 765-469-01)	93.674	38,524
State Children's Insurance Program (765-460-03)	93.767	105,919
Medical Assistance Program - Title XIX (765-460-03; )	93.778	2,942,499
SOCIAL SECURITY ADMINISTRATION		
Direct Payments:		
Social Security Incentive Program	96.006	2,400
DEPARTMENT OF HOMELAND SECURITY		
Direct Payments:		
FEMA Dept. of Homeland Security (EMW-2012-PU-APP-00134)	97.056	38,191
FEMA Dept. of Homeland Security (EMW-2012-FH-084)	97.083	451,289
FEMA Dept. of Homeland Security (EMW-2009-FO-017/2012-FO-014)	97.044	258,625
Pass-through Payments:		
Department of Emergency Management:		
Disaster Grants-Public Assistance (DR-1862, DR-1661, DR-4024)	97.036	9,915
Hazard Mitigation Grant (HPMG-1905-70017)	97.039	108,071
Emergency Management Performance Grants (127-775-01)	97.042	83,003
Port Security Grant Program (127-775-01)	97.056	53,745
	97.067	85,519
State Homeland Security Program (127-775-01)	97.073	<u>11,271</u>
Totals, page 2		<u>13,253,025</u>
Grand Total		<u><u>\$ 23,471,256</u></u>

Note: This report does not include Newport News Public Schools (NNPS) and Peninsula Airport Commission (PAC) programs. NNPS has conducted a separate audit and that report is issued by NNPS. PAC was required to have a single audit for FY2014 that is issued separately.

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

#### (1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Newport News, Virginia (the City), except the Peninsula Airport Commission and the Newport News Public Schools, which have separate Single Audit Reports. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

#### (2) Relationship to Basic Financial Statements

Federal expenditures are reported in the City's basic financial statements as follows:

	<b><u>Federal expenditures</u></b>
General Fund	\$ 14,872,089
Special Revenue Funds	<u>8,599,167</u>
Total expenditures	<u><u>\$ 23,471,256</u></u>

**City of Newport News, Virginia**

**Schedule of Findings and Questioned Costs**

**Year ended June 30, 2014**

**A. Summary of Auditor's Results**

1. The type of report issued on the basic financial statements: **Unmodified opinion**
2. Significant deficiencies in internal control disclosed by the audit of the financial statements: **None reported**
3. Material weaknesses in internal control disclosed by the audit of financial statements: **No**
4. Noncompliance, which is material to the financial statements: **No**
5. Significant deficiencies in internal control over major programs: **Yes, 2014-001**
6. Material weaknesses in internal control over major programs: **No**
7. The type of report issued on compliance for major programs: **Unmodified opinion**
8. Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **Yes**
9. The programs tested as major programs were:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.551-CL	SNAP Cluster
93.558-CL	Temporary Assistance for Needy Families Cluster
93.568	Low-Income Home Energy Assistance
93.575/93.596-CL	Child Care and Development Fund Cluster
93.667	Social Services Block Grant
93.767	Children's Health Insurance Program
93.778-CL	Medicaid Cluster

10. Dollar threshold used to distinguish between type A and type B programs: **\$704,138**
11. City of Newport News qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **No**

**B. Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:**

**None noted**

**C. Findings and Questioned Costs Relating to Federal Awards:**

**2014-001: Allowable Activities/Allowable Costs – Significant Deficiency and Other Non-Compliance**

**Program** – Social Services Block Grant (CFDA 93.667– U.S. Department of Health and Human Services – Virginia Department of Social Services; Federal Award Number – not available; Federal Award Year – 2014)

**Criteria:** Per OMB A-133 Compliance Supplement, expenditures incurred on behalf of the Social Services Block Grant program (SSBG) must be expended on allowable activities.

**Condition:** For two of 25 participant purchase orders selected for testing, the purchase order paid to the provider of Home Based Care/Companion Services exceeded the authorized weekly companion service hours.

**Cause:** Family Services Specialists did not verify the weekly companion provider hours claimed were the assessed weekly hours allowed prior to approving the purchase order and entering into the STARS system to create the monthly purchase order for payment processing.

**Effect:** Non-compliance may result in disallowed costs, which could lead to reduced funding or other sanctions.

**Likely Questioned Costs:** \$7,488

**Recommendation:** City should implement a corrective action plan to enhance internal controls related to the allowability of expenditures.

**Views or Responsible Officials:**

- **Contact Person:** Teresa Carter, Senior Family Services Supervisor, Gloria Dixon, Family Services Supervisor, and Jean Morrison, Family Services Supervisor
- **Corrective Action:** Upon notification of the control deficiency, an immediate supervisory review of all companion cases was conducted. It was determined that the two incidents were isolated to a single worker who is no longer employed at the agency. During a July 2014 Adult Services unit meeting, there was a review of the companion process with all of the unit's current Family Services workers. Emphasis was placed on making sure the number of service units provided did not exceed the allowable amount reflected on the assessment. Review of the correct process will be ongoing during individual supervisory meetings with workers as well as during future monthly unit meetings. Also, in an effort to improve internal controls, both supervisors will review a minimum of two companion cases per worker per month to ensure compliance with program requirements.
- **Anticipated Completion Date:** The initial review of all cases and the initial training were completed in July 2014. Additional case reviews and worker training is ongoing.

**D. Findings and Questioned Costs Relating to Compliance with Commonwealth of Virginia Laws, Regulations, Contracts, and Grants**

**2014-002: Social Services Business Continuity Plan**

**Criteria:** Per Section 3-15 of the *Specifications for Audits of Counties, Cities, and Towns*, published by the Commonwealth of Virginia's Auditor of Public Accounts (Specifications), the City Department of Human Services should have a documented Business Continuity Plan which includes the requirements prescribed by the Virginia Department of Emergency Management. This plan should be reviewed and updated annually.

**Condition:** The Newport News Human Services Department Business Continuity Plan was last updated on September 28, 2009.

**Cause:** The business continuity plan was not reviewed and updated annually.

**Effect:** Non-compliance may result in an inadequate business continuity plan and lead to a disruption in operations.

**Recommendation:** The City should implement corrective action aimed at ensuring an annual review of the Department of Human Services Business Continuity Plan.

**Views of Responsible Officials:**

- **Contact Person:** Susan Nesbit, Administrative Support Bureau Supervisor
- **Corrective Action:** The department acknowledges the finding and will take corrective action as required.
- **Anticipated Completion Date:** September 2015.

**2014-003: Social Services Email Encryption**

**Criteria:** Per Section 3-15 of the Specifications, email communications containing Social Service client information must be sent via secure means. Emails containing sensitive data sent over the internet must be encrypted.

**Condition:** The City's Department of Human Services does not use encryption software for emails.

**Cause:** Unknown

**Effect:** Non-compliance may result in loss of sensitive data.

**Recommendation:** The City should implement corrective action aimed at ensuring emails containing Social Services data are encrypted.

**Views of Responsible Officials:**

- **Contact Person:** James Cloud, Department of Human Services (DHS) Information Technology Administrator
- **Corrective Action:** The Newport News Department of Human Services is a member site of the City of Newport News' network domain that includes email services. While currently the City does not have encryption on their exchange servers, products are being tested and the expectation is to have an enterprise solution in place by fall 2015. In the near term, users have been instructed to not send sensitive data via email. Human Services Information Technology personnel are also researching cloud-based encryption products to use until the city's enterprise solution is in place.
- **Anticipated Completion Date:** Fall 2015

**2014-004: Virginia Initiative for Employment not Welfare (VIEW)**

**Criteria:** Per Section 3-15 of the Specifications, VIEW purchased service transactions must be in accordance with policy and based on individual VIEW participants' Activity and Service Plan.

**Condition:** For four of twenty-five cases and transactions selected for testing, the credit authorization form was missing one of the required signatures (e.g. provider, recipient, or both). Also, for one of twenty-five cases and transactions selected for testing, the case file could not be located.

**Cause:** City Department of Human Services personnel did not follow the City approval procedures and documentation policies.

**Effect:** The City's inability to provide documentation supporting all participants' eligibility may result in costs disallowed by the grantor.

**Recommendation:** The City should implement a corrective action plan aimed at enhancing internal controls related to participant eligibility to ensure that accurate and complete documentation supporting all participant intake information is maintained in accordance with applicable record retention requirements.

**Views of Responsible Officials:**

- **Contact Person:** Rhonda Gilliam, Senior Employment Services Supervisor
- **Corrective Action:** Employment Services Supervisors have emphasized to case managers the importance of obtaining required signatures on credit authorizations and maintaining supporting documentation in case records that will support payment for services provided for customers. A corrective action plan has been developed, and is currently in use, to enhance internal control as it relates to accurate payment of credit authorizations. The Action Plan stipulates that all credits are to be paid by Employment Services Administrative Assistants. All Administrative Assistants have been trained and instructed to return all credit authorizations to case managers that do not have the required signatures and the supporting documentations needed for payment. All credit authorizations payments, along with supporting documents, are retained in a payment log and reviewed monthly for payment accuracy by a Senior Employment Supervisor or designee.
- **Anticipated Completion Date:** Implemented November 2015.

**2014-005: Social Services Security Access – Terminated Users**

**Criteria:** Per Section 3-15 of the Specifications, when a user leaves the local department of social services, their access privileges must be immediately removed (within 3 working days of employment termination) from all systems they were authorized to use.

**Condition:** For 3 of 5 terminated users selected for testing, access was not removed within three business days of termination.

**Cause:** Termination dates were not reported to the individual responsible for removing system access privileges in a timely manner.

**Effect:** Non-compliance may result in unauthorized individuals having system access.

**Recommendation:** The City should implement corrective action aimed at enhancing internal controls related to the communication of the separation of social services employees to ensure that system access privileges of separated employees are removed within prescribed requirements.

**Views of Responsible Officials:**

- **Contact Person:** James Cloud, Department of Human Services (DHS) Information Technology Administrator,
- **Corrective Action:** Management has restructured the current protocol regarding notifying key employees of pending retirements, resignations, or other terminations. The Information Technology Administrator is now notified in advance of all impending employee departures by the DHS Human Resources division. This procedural change ensures that the Information Technology Administrator will be able to notify the Information Technology Security Officer of an employee's termination date in time to terminate the departing employee's security accesses in compliance with state policy.
- **Anticipated Completion Date:** Implemented November 2014.

**2014-006: Conflicts of Interest**

**Criteria:** As described in Section 2.2-3115 of the *Code of Virginia*, local government officials must file an annual disclosure form disclosing personal financial interests that may cause conflicts.

**Condition:** Four of ten local government officials did not complete the annual disclosure completely.

**Cause:** Unknown

**Effect:** Non-compliance may result in action by the Commonwealth.

**Recommendation:** Local government officials should complete the disclosure form in accordance with prescribed requirements.

**Views of Responsible Officials:**

- **Contact Person:** Tom Mitchell, Director of Finance
- **Corrective Action:** The Director of Finance will review the annual disclosure forms to ensure completeness and timeliness.
- **Anticipated Completion Date:** January 2015

**Resolution of Prior Year Findings:**

**2013-01 Capital Assets** – Finding not repeated.

**2013-02 Eligibility** – Finding not repeated.

**2013-03 Virginia Retirement System Reporting** – Finding not repeated.

**2013-04 Conflict of Interest** – Finding repeated. See finding 2014-06

**2013-05 Information Security Policy** – Finding not repeated.



HANDSHAKE, SCULPTURE BY GUNTHER STILLING

# COMPREHENSIVE ANNUAL FINANCIAL REPORT 2014

DEPARTMENT OF FINANCE

2400 WASHINGTON AVENUE | NEWPORT NEWS, VIRGINIA 23607

CITY OF NEWPORT NEWS, VIRGINIA

