



COMPREHENSIVE ANNUAL FINANCIAL REPORT 2016

CITY OF NEWPORT NEWS, VIRGINIA

FISCAL YEAR ENDED
JUNE 30, 2016



On the cover



Photograph by Michael Poplawski

The Huntington Park Tennis Center located at 340 Hornet Circle officially opened July of 2015. The 5,108 square foot project was built to support the surrounding tennis facilities. Within the park there are 20 lighted hard-courts. The center contains a pro shop, large locker rooms, a conference room, support offices, and storage rooms. This center also offers racquet stringing, tennis court rental, ball machine and backboard rental, and private and semi-private tennis lessons.

CITY OF NEWPORT NEWS, VIRGINIA

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2016

Prepared by the
Department of Finance

2400 Washington Avenue
Newport News, VA 23607

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November 22, 2016

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, 2016 (FY 2016).

Cherry Bekaert LLP, Certified Public Accountants, conducted the audit of the City's financial statements for the year ended June 30, 2016, 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.

CITY OF NEWPORT NEWS, VIRGINIA

Profile of the City and its government

The City, incorporated in 1896, is located on the eastern coast of Virginia. It occupies 69 square miles with a population of 182,385, based on the 2016 census estimates.

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 social services, recreational activities, cultural events, and the construction and maintenance of highways, streets and infrastructure. In addition to these general government activities, the City provides street lighting, water and wastewater services to its citizens. The City's Waterworks Department 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 financially responsible for a legally separate school district, the Newport News Public Schools (Schools, or School Board), which is reported separately within the financial statements. Also included, as component units, are the Peninsula Airport Commission (Airport, or PAC) and the Economic/Industrial Development Authorities (E/IDA), because of City Council financial accountability for those entities as well as 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, there is significant focus on the 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).

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The Budget Department reviews all departmental transfer requests to ensure 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.

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 further enhanced by its close proximity to 15 other cities and counties. In total, these entities blend synergistically into Virginia's Hampton Roads region, with Newport News a vital contributor to the desirable lifestyle, high 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 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. Schools provides a full range of public education services to approximately 28,865 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 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; Newport News is blessed with a diversity of contributors to the local economy - corporate,

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military, and educational institutions, in addition to the workers and the many retirees who find the area attractive. Most employers were able to weather the recent economic turbulence without permanent downsizing.

Unemployment rates in Newport News are slightly higher than the national average. As of July 2016, the national unemployment rate (not seasonally adjusted) was 4.9%, compared to the City's rate of 5.0%. In 2015, the national and local rates were 5.3% and 5.4% respectively.

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

Recent positive economic news about some of the City's largest employers and some of the City's new and ongoing economic development projects follows.

Corporate Research Corridor-Jefferson Lab and Tech Center

Jefferson Lab, a world-class national laboratory specializing in particle physics, has been present in Newport News for over 30 years. During that time, the Lab has won over \$3.2 billion in federal funding and made groundbreaking discoveries in nuclear physics. Jefferson Lab recently completed a \$400 million federally funded upgrade, doubling the power of the existing facility. This unique and important science asset (attracting over 1,300 international users annually) is a significant contributor to the local economy.

Jefferson Lab has begun early project development of a Medium-Energy Electron Ion Collider (MEIC) in preparation to compete for a high-priority, next-generation Department of Energy multi-phased one billion dollar science initiative.

Tech Center is a proposed corporate research center containing approximately 1.1 million square feet of office and lab space, spread across 12 buildings, with an estimated 5,500 employees. The presence of a research center next to Jefferson Lab would provide immediate opportunities for collaboration between Jefferson Lab scientists and the private sector. In addition to the research center, the broader Tech Center research park includes housing, retail, and commercial uses. The provision of these amenities align with a growing trend of mixed-use research parks and will contribute toward the attraction of skilled workers to Newport News, benefitting both the researchers at Jefferson Lab and the companies occupying the corporate research center.

This \$250 million mixed-use development began with its first phase of construction (representing \$160 million in investment) in February 2014. Named The Marketplace at Tech Center, this phase was complete by the end of 2015.

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As Newport News continues to grow, the activity at Jefferson Lab and Tech Center provides yet another opportunity to further diversify the economy and to create a lively research and development presence, both within the City and Hampton Roads.

Liebherr Mining Equipment Company

Liebherr Mining Equipment Company, located in the southern Copeland Industrial Park, manufactures very large trucks for transporting ore, each selling at a seven-figure price.

In February 2013, Liebherr announced it would invest \$45.4 million to expand its operation in the Cities of Newport News and Hampton.

Liebherr continues to invest in the company's Newport News facility. Most recently, the company completed a major overhaul of the loading dock area located at the end of its primary warehousing facility, adjacent to Chestnut Avenue. Not only does the loading dock project allow for more efficient offloading product flow, but the improvements also aesthetically enhance one of the structures most visible to the public. Landscaping and beautification efforts along Chestnut Avenue were also included as a part of this project.

Canon Virginia, Inc.

In January 2015, Canon announced plans to invest another \$100 million in its Newport News facility to add more printer cartridge production lines and increase its toner manufacturing operations. Newport News is Canon's U.S. manufacturing headquarters, serving as the manufacturing, engineering, recycling and technical support center for all the Americas. This announcement builds upon a \$370 million expansion in 2008 and another \$27 million announcement in 2013.

University of Virginia/Virginia Tech Joint Education Center

In 2014, the University of Virginia/Virginia Tech Center in Newport News celebrated its first full year in existence. Since then, there has been tremendous growth at the Center through a variety of outreach events, for-credit and not-for-credit courses and specialized training cohorts designed to meet the needs of local businesses.

The UVA/Virginia Tech Center had a successful year in 2015. Both institutions continued to partner with organizations to raise the visibility of the Center, donate classroom and meeting space, and tailor new curriculum offerings to meet the needs of the business and professional communities.

The Center is in the planning stages of developing a joint program for managers that will be offered to area organizations and Virginia Tech is exploring expanding graduate degree programs to include Masters and Educational Specialist degrees in K-12 school administration.

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Huntington Ingalls Industries and the Apprentice School Project

Huntington Ingalls Industries is the State's largest private employer with nearly 22,000 workers employed in the City 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 as well as its human capital, typically in tens of millions of dollars annually.

Ship repair within the City during the last three years was exceptionally strong. Huntington Ingalls is building two more Virginia-class submarines, a joint project of Newport News Shipbuilding and Electric Boat in Connecticut. The Shipyard also has planned a three-year overhaul of one additional carrier, which began in 2016.

Brooks Crossing

The year 2016 was a monumental year for the Brooks Crossing mixed-use development project, as phase one of the project's infrastructure, (the new South Police Precinct facility and the new pioneering community grocery store, Jim's Local Market) was completed.

Jim's Local Market

For years, the City and E/IDA had been working with the private sector and more recently the Brooks Crossing developer, to bring a new grocery store to the Southeast Community.

Jim Scanlon, a seasoned veteran of the grocery industry, was selected to serve as the operator of "Jim's Local Market". This full-service grocery store focuses on local produce and healthy food options, providing 50 full- and part-time positions with a special effort made to recruit from within the community. In June 2015, Bayport Credit Union announced that it would open a branch inside the Jim's Local Market. The 29,290 square-foot store held a community celebration marking the grand opening in May 2016.

Seafood Industrial Park

2015 was an important year of progress for the City's Seafood Industrial Park (SIP). In May 2015, the Virginia Port Authority (VPA) awarded the City an Aid to Local Ports Grant of \$638,292 to help replace a mooring facility at the Seafood Industrial Park that has served the City well, but has exceeded its expected lifespan. The design will modify the facility to accommodate current large-scale vessel configurations as well as anticipate future sea level rise.

Eagle Technologies, LLC

Since its original founding in Newport News in 1996, Eagle Technologies, LLC has had several locations within Hampton Roads, but, with the help of EDA staff, has once again found its home in Newport News. Eagle, which specializes in the design and manufacturing of helicopter

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rotor blades and other aircraft components, purchased the vacant former Daily Press building located at 7505 Warwick Boulevard in the beginning of 2015.

Ferguson Enterprises

On December 7, 2015 Ferguson Enterprises celebrated the opening of the company's newest product showroom. A showcase in-and-of itself, the James River Architects-designed facility is a visually pleasing addition to the Jefferson Avenue business corridor. Located adjacent to the company's Newport News headquarters on 10 acres of land purchased from the EDA in 2013, the showroom features 15,000 square feet of display space in which the public can view the variety of products offered by Ferguson. In addition, the facility will be utilized for vendor showcase opportunities and as a product training venue for Ferguson associates.

Printpack, Inc.

Governor Terry McAuliffe, along with Virginia Secretary of Commerce and Trade Maurice Jones, were in town on January 26, 2016 to announce the expansion of Printpack, Inc., a manufacturer of flexible packaging products. Based in Atlanta, the company operates 25 plants and employs over 4,000 associates in Mexico, China and the United States, including its Rigid division in Oakland Industrial Park in northern Newport News.

Printpack will invest \$25.7 million to add a 150,000 square-foot building expansion and new equipment at the Newport News facility, and create 50 new jobs.

Interstate 64 Widening

Groundbreaking for the first phase of the Interstate 64 widening project was held September 2015, which is expected to be completed in December 2017. The first of three planned segments is a 5.6-mile section between Jefferson Avenue and Yorktown Road, and will expand the interstate from four to six lanes (one lane and one shoulder in each direction). The project represents a \$144 million investment from federal, state, and regional funds.

New Horizons Special Education Center

New Horizons Regional Education Center Association (New Horizons) is a non-profit, unincorporated association composed of 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, operating for over twenty years as 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 to construct a modern regional special education facility to meet future needs. The plans include a new 52,123-square foot, two-story building housing administrative offices, conference rooms, gymnasium, cafeteria, rest

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rooms, media center, 29 classrooms, functional and vocational labs, and therapy and sensory rooms. The E/IDA assisted in the solicitation, underwriting, placement and issuance of an \$11 million tax exempt construction-permanent financing facility for this valuable, regional education project. Construction was completed at the end of 2015.

Other

The City is more than 95% 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 and Tech Center at Oyster Point, Port Warwick, Patrick Henry Place (construction expected in Summer/Fall 2016), Huntington Pointe (under construction) and Hilton Commons (in its planning phase). Recreating the City in this mode will be increasingly important for 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 2017 to FY 2021 Capital Improvements Plan was approved by City Council on December 8, 2015. 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, 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 Waterworks Fund pays all of the debt service related to its capital projects. The FY 2017 Budget provides that the General Fund will pay 78%, or \$48 million, of the total debt service budget of \$61.4 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.

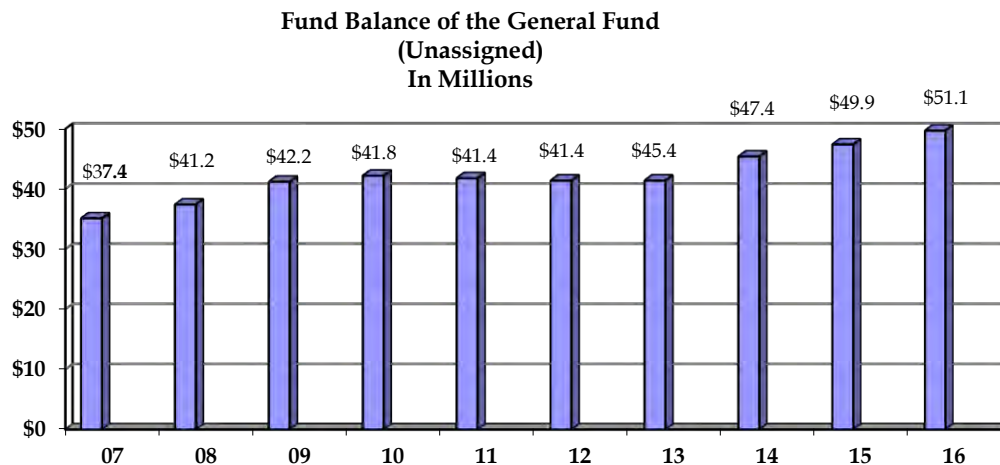
The following are the City's Capital Financing and Debt Management Policies:

- The goal of the City is to maintain its debt burden below 3.0%. Debt burden is defined as the ratio of outstanding general obligation debt and capital lease obligations to the total value of the taxable real and personal property. The projected FY 2017 debt burden is 2.3%.

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- Debt service obligations are primarily funded from school and municipal revenues received through the Operating Budget. The City's informal policy is that the ratio of debt service obligations to General Fund revenue should not exceed nine and one-half percent (9.5%) in any fiscal year. For FY 2017 the ratio is projected to be 7.2%.
- The City's intent, when issuing new General Obligation debt or refinancing existing debt, is to structure principal payments so that at least thirty percent (30%) of the total 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 2016, General Fund expenditures exceeded revenue by \$5.9 million. The unassigned General Fund balance totaled \$51.1 million at June 30, 2016, or approximately 11.6% 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, resulting in a cumulative reduction in Real Estate Tax revenue of over \$20 million for the same time period. Fortunately, this loss was lower than some segments of the nation, but is consistent with nationwide decline in home prices and the lower market value of real estate. The revenue from Real Estate Taxes trended lower between FY 2009 and FY 2014 and was level for FY 2015. During FY 2016 a slight increase occurred, and is expected to continue in FY 2017, indicating stabilization of the housing markets as well as new construction projects that are scheduled to be completed in the upcoming fiscal year.

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The City's financial condition is better than others in the Commonwealth and the nation, and there appears to be slow and steady growth in City revenues as the economic recovery continues, even as revenue from state and federal programs continues to be flat. On the expense side, health care costs, driven primarily by prescription drug costs, continue to move higher.

The financial outlook for Fiscal Year 2016-2017 is stable with some moderate revenue growth expected 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.

Significant Strategic Priority Accomplishments for FY 2016

Of all of the significant accomplishments and initiatives undertaken or completed during the year ended June 30, 2016, 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 second rating agency, Moody's, maintained the City's AA1 rating, the second highest they offer. These ratings were affirmed by both agencies in December 2015. 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 view the City's management team as very strong, with 'strong' financial policies and practices...indicating financial practices are strong, well embedded, and likely sustainable. Newport News has a long-standing record of being fiscally conservative with well-adhered-to management policies and practices." With Newport News' very strong fiscal management, which we believe has contributed to its strong reserve and liquidity position" and "the City's budgetary performance and debt profile will remain stable given the City's adherence to historical practices of adopting structurally balanced budgets..." S&P went on to note that they do not anticipate changing the rating in the next two years.

In FY2016, the Waterworks Department refunded a series of 2007 Water Revenue bonds. During the bond rating agency review portion of the process, Waterworks AAA bond rating was reaffirmed. The rating, first awarded in March 2011, is the highest possible rating available and is given to the most reliable and stable borrowers. The agency report cited several fiscal strengths including "stable financial performance" and "ample liquidity and reserve levels" and "strong financial management." With the support of City Council, Waterworks management and staff have proven that the prudent financial steps taken to manage financial resources have been effective in maintaining the overall strong financial standing. Equally as significant are the savings attained from the refunding. Over a twenty year period, Waterworks will accrue more than \$6.5 million in present value savings.

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Community Renewal, Maintenance and Enhancement

- The City secured State Revenue Sharing Program allocations totaling \$8.6 million. Major projects supported by these funds include Atkinson Boulevard construction, replacement of Warwick Boulevard Bridge over Lake Maury, Jefferson Avenue streetscape improvements construction, Hogan Drive extension and Habersham Drive extension.
- The City secured Virginia SMART SCALE program funds totaling \$8.9 million for construction of Atkinson Boulevard and replacement of Warwick Boulevard Bridge over Lake Maury.
- The City was successful in obtaining \$755,000 of Highway Safety Improvement Program Federal Grants for intersection improvements at Warwick Boulevard and Harpersville Road. Improvements include upgrading the existing span wire design to a mast arm traffic signal and construction of a new northbound left turn lane.
- Transportation Alternative Program funds of \$400,000 were approved for streetscape improvements on Washington Avenue from 30th Street to 34th Street. Improvements include lighting, sidewalks, and handicap ramps.
- The City secured Federal Lands Access Program funds totaling \$8.1 million for the Route 105 Bridge over the Newport News Reservoir replacement project. This constitutes approximately 45% of the total project need of \$18.1 million.



Newport News, VA Choice Neighborhood | Base Map

■ CNI Boundary ■ Water ■ Park
■ Wetland ■ Military Installation
■ State Wildlife Management Area

- The City of Newport News and the Newport News Redevelopment and Housing Authority, in partnership with area non-profits, businesses, faith-based organizations and residents, received \$500,000 for a Choice Neighborhood Initiative (CNI) Planning Grant.

- The CNI Planning Grant is part of a Department of Housing and Urban Development (HUD) funding initiative that focuses on assisting communities to develop successful neighborhood transformation plans and build the support necessary for that plan to be successfully implemented. The three core goals of CNI are housing, people and neighborhoods.

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- FY2016 saw the completion of two vital dam rehabilitation projects. The Diascund and Walkers Dam rehabilitations took several years to complete with a combined cost of more than \$15,000,000. The Diascund Dam creates Waterworks' second largest reservoir, making it a critical component of the water supply system.
- In 2016, the Jefferson Avenue Streetscape Phase II construction project design was completed and utility work began. The project will continue to beautify lower Jefferson Avenue from 12th to 24th Streets with storm water and sanitary sewer improvements, new curb and gutter, paving and crosswalks with designated on-street parking, and wide landscaped sidewalks with street, trees, and decorative signal and light poles. Construction is anticipated to begin in summer 2017.
- Grant funding provided by the City helped construct the new Boys and Girls Club Youth Development Park, which was officially dedicated in September 2015. Other sponsors of this \$1.5 million state-of-the-art synthetic turf facility included Towne Bank and the Cal Ripken Foundation.
- The City's 30,000 square foot Fantasy Farm Playground received a major upgrade in FY 2016, thanks to operating budget funding. This playground, the largest in the City, is visited annually by close to 80,000 children.
- The City provided \$1.2 million for the replacement of the Newport News Park Campsite Office. The new facility, over twice the size of the previous 1968 facility, contains Park business offices, campsite registration, public restrooms, laundry room, self-serve snack bar and general store. The facility will serve 350,000 park visitors each year.
- City funding provided for the completion of the second phase of the replacement James River Fishing Pier during FY 2016. While construction of the first 900 feet was completed in FY 2015, an additional 1,464 feet of lighted concrete pier was added in FY 2016, for a total length of 2,364 feet, making this the longest fishing pier on the East Coast.
- The Chesapeake Avenue Bike Trail project is underway. The project, now in the design phase, will construct a separate pedestrian promenade walkway along the Chesapeake Avenue seawall and convert the existing bike route to a dedicated bike lane that separates bicycle travel from motor vehicle travel, creating a safer environment for the cyclist. In 2016, the City held a public information meeting with the community and also applied for and received an additional Moving Ahead for progress in the 21st Century (MAP-21) Transportation Alternatives Program (TAP) grant for \$400,000, which requires a 20% local match of \$100,000. The City is pursuing additional funding to fully fund the trail. Cost to construct the trail is estimated at \$1.4 million.

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Environmental Stewardship and Sustainability

- The City was awarded a matching funds grant of \$1.1 million for planning, design, and implementation of stormwater best management practices that address the cost efficiency and commitments related to reducing water quality pollutant loads through the Virginia General Assembly Stormwater Local Assistance Fund. The project selected is in the Salters Creek area of the City.
- The Public Works Solid Waste Division has begun harvesting storm water that collects in the Cell V lake next to the Denbigh landfill to use on the Stony Run athletic ball fields. Pipes and pumps have been installed to start the process, potentially saving up to 80,000 gallons of water per year by using rain water instead of purchasing water.
- The City and the Newport News Public Schools (NNPS), in collaboration with the United States Environmental Protection Agency (EPA), implemented a Green School Grounds (GSG) Initiative that is focused on managing stormwater on school grounds and providing a unique platform to engage NNPS in actions promoting environmental awareness, literacy, and stewardship. This initiative supports EPA's commitment to making a visible difference in communities.
- The Public Works Department earned approval of its Environmental Management System (EMS) annual report to the Virginia Environmental Excellence Program (VEEP) in May 2016. The Virginia Department of Environmental Quality commended the facilities for outstanding work in pollution prevention. The annual VEEP requirement is to report pollution prevention initiatives on three practices. One practice reported was the Street Maintenance Division hauling 1,044 tons of broken concrete to be recycled at no cost. In addition, 4,464 tons of old asphalt were recycled and reused. The other practices included oil and antifreeze recycling.
- The City was awarded a matching funds grant of \$730,240 for the design and implementation of two projects that will reduce nutrient loads to the Chesapeake Bay through the Virginia Water Quality Improvement Fund.
- The City completed a four year phased project totaling approximately \$5 million to install Supervisory Control and Data Acquisition (SCADA) systems at all City sewage pump stations. The new system provides multiple monitoring and remote control options at each of our nearly 200 sanitary sewer pump stations. The combination of additional operating data and remote control capability will improve reliability of sanitary sewer service for the entire City.
- Relevant to workforce transportation, staff to the EDA directly assisted Hampton Roads Transit (HRT) in determining the best timing for bus lines to provide service through greater Oyster Point to best meet needs for shift workers at high employment centers such as Canon Virginia, Inc., in 2015. EDA staff will continue to provide this important

CITY OF NEWPORT NEWS, VIRGINIA

support function for our City's workforce and engage with HRT on route alterations Peninsula-wide to help respond effectively to shifting demands.

Public Safety

- The Fire Department successfully completed the annual review process for the Fire Service Accreditation as required by the Center for Public Safety Excellence (CPSE). The department continues to focus on the response times to emergency calls to provide the best service possible to citizens and visitors. NNFD is one of 183 accredited fire departments in the world.
- The Public Works Security Services Division coordinated with the US Department of Homeland Security to conduct risk and vulnerability assessments for the Courthouse, City Hall, Public Works Operations, and Rouse Tower. These assessments allow the City to be proactive in implementing necessary security measures to keep employees and the public safe in City buildings.
- The Fire Department was successful in receiving an Emergency Medical Services Grant for the purchase of new Lifepac 15 automatic defibrillators and heart monitoring equipment. The Emergency Medical Services Grant was for almost \$200,000, offsetting the total cost of replacing all 22 defibrillators of \$720,000. This new technology will greatly improve the ability to provide state of the art lifesaving emergency medical care.
- On January 5, 2016, the new South Precinct opened at 3303 Jefferson Avenue. The facility serves as the base for approximately 100 officers who are assigned to the South Precinct, which covers the geographical area from New Market creek south to the waterfront. This facility will serve as the anchor for development in the southern part of the City and is the first building in the Brooks Crossing Project.
- After a review of the current K-9 facility, the Newport News Police Foundation announced their 2016-2017 major goal is to build a new facility for the department's canines. The School Board donated five acres of land to the City. The Foundation is working diligently in the community to obtain in-kind and cash resources to build the facility and donate it to the City. A spring 2017 opening is anticipated.
- The three-year, \$1,250,000 federal COPS Hiring Grant, which will expire in 2016, has allowed the City to add ten police officer positions to the authorized complement. The officers were requested to deal with gun violence in the City.
- The Newport News Police Department became the 14th police department in the country to receive accreditation from CALEA in 1986. The Newport News Police Department was re-accredited in 1991, 1996, 1999, 2002, 2005, 2008, 2011, 2013, and most recently in 2016. The 484 standards developed by the Commission on Accreditation for Law Enforcement Agencies (CALEA) prescribe "what" agencies should be doing, but not

CITY OF NEWPORT NEWS, VIRGINIA

“how” they should be doing it. That decision rests to the individual agency and its Chief Executive Officer.

Other Community and Citizen Services

- The City received funding of \$60,000 for the Safe Routes to School program for the 2016-2017 school year. This is a continuation of the program that began in 2015 and serves several elementary schools within the City, promoting a healthier lifestyle by encouraging students to walk or bike to school.
- The Department of Human Services (NNDHS) serves the neediest citizens, and is best known for the administration of benefit programs, child protective services, foster care, and adult protective services. According to the FY 2015 Virginia Department of Social Services (VDSS) data, NNDHS provided benefits in the form of Supplemental Nutrition Assistance (SNAP), Temporary Assistance for Needy Families (TANF) and Medicaid assistance to approximately 63,430 individuals. An additional 5,600 households received Energy Assistance and 1,365 families received Child Care Assistance. The total amount expended (Federal, State, and Local) on Social Services programs was \$321 million including approximately \$10 million contributed by the City. The majority of these funds, \$295.9 million, were provided to citizens in the form of benefits which are then returned to the community through the purchase of goods and services.
- Permanency status was achieved for thirty-nine (39) foster children during fiscal year 2016 in the form of adoption, reunification with their families, or custody transfer to other relatives.
- The Department of Human Services (NNDHS) served 112 families during 2016 with \$434,000 Maternal, Infant, and Early Childhood Home Visitation (MIECHV) grant funds from the Virginia Department of Health. The MIECHV Grant funds improved early childhood systems of care, including access to prenatal appointments. During the past four years of the grant, a total of 219 families received at least one home visit.
- During FY 2015, special assistance provided under the Children’s Services Act (CSA) supported 283 children. CSA funds were used to purchase services for: placement of children in residential facilities, group homes, foster homes, independent living arrangements, and special education private day services. Some of the community-based services included sex offender treatment, before and after school care, in-home therapy and mentoring.
- The Department of Human Services (NNDHS) was awarded a three-year, \$870,316 Community Based Violence Prevention (CBVP) grant from the Office of Juvenile Justice and Delinquency Prevention (OJJDP) in 2014. In FY 2016, NNDHS successfully solicited an additional \$70,000 in CBVP funding, bringing the total grant award to \$940,316. This funding supports various efforts throughout the City targeted toward reduction of

CITY OF NEWPORT NEWS, VIRGINIA

juvenile delinquency, community capacity building, and engagement of the faith community in youth violence prevention efforts.

- The Virginia Homeless Solutions Program (VHSP) is a program funded by the State General Fund and the Federal Emergency Solutions Grant (ESG) to support Continuum of Care (CoC) strategies, homeless services, and prevention programs that align with the following goals:
 - Reduce the number of individuals/households who become homeless;
 - Shorten the length of time an individual or household is homeless; and
 - Reduce the number of individuals/households that return to homelessness.
- The Department of Parks, Recreation and Tourism hosted the Virginia Senior Games for the 4th consecutive year in FY 2016. The games were subsidized from a combination of registration fees, sponsorships and operating budget funds. This year's event involved over 1,000 different athletes participating in 17 different events.
- The City produced a wide variety of top quality special events in FY 2016, including the 4th of July Stars in the Sky, Children's Festival of Friends, Hollydazzle, Fridays by the Fountain, Celebration in Lights and others. An estimated 500,000 people attended these special events.
- The City hosted the swimming events for the 2015 Junior Olympics in July at the Brittingham-Midtown Community Center. Three-hundred and eighty-three swimmers, ages 8 to 18, competed in the Center's 50-meter pool. The AAU Junior Olympics is the largest multi-sport event for youth in the United States.
- The FY 2016 Cultural Attractions Fund Grant award allowed the Historic Services Division to restore the historic Morser M.16 outside the Virginia War Museum. This important German wheeled gun from World War I is one of only 14 of this early model heavy artillery that exists worldwide, making it especially unique as a museum artifact.

Awards

In April 2016, the Virginia Public Library Directors Association provided the Newport News Public Library System (NNPLS) with two awards: Outstanding Young Adult Program and Better Together Capital Award. Library systems in Virginia had the opportunity to nominate up to three programs. Out of the three programs submitted by NNPLS, two won these prestigious awards. The Better Together Social Capital Award is given to an organization which creates connections among diverse people or groups, based on trust, that enhance cooperation for mutual benefit. NNPLS received this award for the Denbigh Youth Alliance.

CITY OF NEWPORT NEWS, VIRGINIA

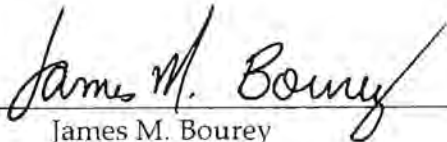
The other award, Outstanding Young Adult Program, was given in recognition of UAV's 4 Me: Aerial Robotics Workshop.

The City received approval from the Department of Environmental Quality (DEQ) as a Virginia Environmental Excellence Program Sustainability Partner (VEEP SP) for calendar year 2016. The annual approval is in recognition of the numerous significant environmental achievements the City has made to date as well as sustainability goals set for the future. DEQ designed the VEEP SP track to encourage organizations across Virginia to make environmental sustainability part of their culture through leadership, innovation, and continual improvement. Newport News demonstrates this commitment through continual, measurable, and verifiable conservation efforts, leading to direct and indirect improvements in energy usage, water usage, waste generation, and other environmental benefits. The City has received this annual recognition of environmental excellence since 2013.

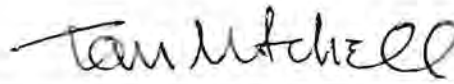
Acknowledgments

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, as well as the other City departments and agencies, especially the Department of Budget and Evaluation, who contributed 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,



James M. Bourey
City Manager



Tom Mitchell
Director of Finance

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CITY OF NEWPORT NEWS, VIRGINIA

CITY GOVERNMENT OFFICIALS (at June 30, 2016)

City Council

McKinley L. Price, DDS Mayor
Robert Coleman Vice Mayor
Herbert H. Bateman, Jr. Member
Saundra Nelson Cherry, D. Min. Member
Sharon P. Scott..... Member
Tina L. Vick 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

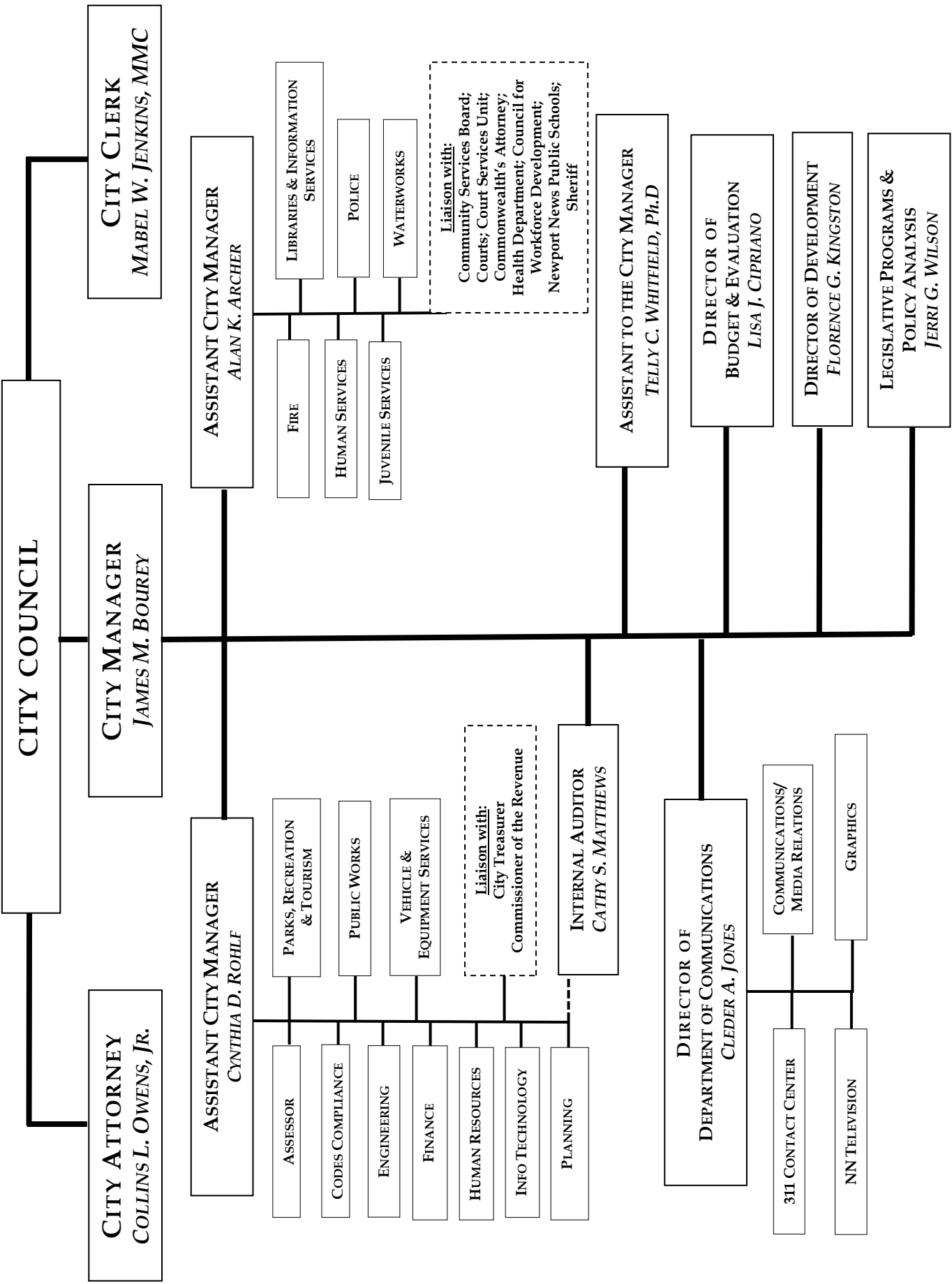
Department of Finance

Tom Mitchell Director of Finance
Tonya O'Connell..... Assistant Director of Finance
William Rose 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
Scott Dewhirst..... Acting Director of Public Utilities

Councilman Robert Coleman served as Vice Mayor until June 30, 2016. On July 12, 2016, Councilwoman Tina Vick was elected by Council members as Vice Mayor. Councilman Marcellus Harris III was elected to City Council, effective July 1, 2016.





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, 2015

Executive Director/CEO

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Report of Independent Auditor

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

Report on the Financial Statements

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, 2016, 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 21.24% of the respective assets, 2.06% of the respective revenues, and 213.62% of the respective net position 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 opinion, insofar as they relate to the amounts included for the Peninsula Airport Commission, is based on the report of the other auditors. 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 auditors, 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, 2016, 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.

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 and other postemployment benefits information and related notes on pages 3-13, 106-110, 111-115 and 116-117, 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's basic financial statements. The Introductory Section, Supplementary Information, and Statistical Section, as listed within the Table of Contents, 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, 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 22, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Richmond, Virginia
November 22, 2016

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, 2016 (FY 2016). 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 2016

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 \$201.2 million. This amount represents an increase of \$24.3 million or 13.7%, over prior year's ending balance of \$176.9 million.

General Fund

- At the close of FY 2016, unassigned fund balance for the General Fund was \$51.1 million or 11.35% of FY 2016 total General Fund revenues and transfers in.
- General Fund revenues and transfers increased \$8.1 million or 1.8% above FY 2015, due to an increase in general taxes, primarily real property taxes. Expenditures and transfers out increased \$17.2 million, 3.9% higher than the prior fiscal year. FY 2016 expenditures and transfers out were 2.0% less than budget.
- The City's real estate tax rate of \$1.22 per \$100 of assessed valuation remained unchanged for FY 2016. The tax rate on personal property of \$4.50 per \$100 of assessed valuation, also remained unchanged.

Governmental Activities

- Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at June 30, 2016, by \$201.2 million. Of this amount, \$19.3 million was restricted.
- The City's total bonded debt increased by approximately \$9.5 million during the current fiscal year. The net increase is due to the issuance of new debt, refunding of previous debts, which are offset by related principal payments.

CITY OF NEWPORT NEWS, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

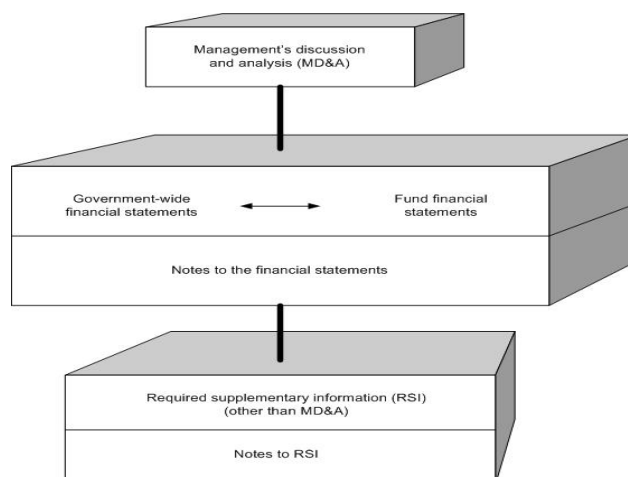
The City's basic financial statements comprise three components: *government-wide financial statements*, *fund financial statements*, and *notes to the financial statements*. This report also contains required other supplementary information sections in addition to the basic financial statements themselves.

- 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 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.

The City has three types of funds:

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

- *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 Waterworks 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, Agency Funds and the Line of Duty Act Fund. 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):

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 209.5	215.0	94.7	100.6	304.2	315.6
Capital assets, net	736.9	710.9	392.7	382.6	1,129.6	1,093.5
Total assets	946.4	925.9	487.4	483.2	1,433.8	1,409.1
Deferred contributions/experience	36.1	25.8	6.0	3.2	42.1	29.0
Debt refundings resulting in loss	13.9	12.8	3.5	2.8	17.4	15.6
Total Deferred outflows of resources	50.0	38.6	9.5	6.0	59.5	44.6
Current and other liabilities	108.0	119.9	56.9	55.0	164.9	174.9
Long-term liabilities	682.6	637.1	137.0	143.2	819.6	780.3
Total liabilities	790.6	757.0	193.9	198.2	984.5	955.2
Deferred pension gains	3.7	29.3	0.4	4.4	4.1	33.7
Property taxes collected in advance	0.9	1.3	-	-	0.9	1.3
Total Deferred inflows of resources	4.6	30.6	0.4	4.4	5.0	35.0
Net position:						
Net investments in capital assets	384.7	362.5	299.1	284.6	683.8	647.1
Restricted	19.3	15.5	-	-	19.3	15.5
Unrestricted (Deficit)	(202.8)	(201.1)	3.5	2.0	(199.3)	(199.1)
Total net position	\$ 201.2	176.9	302.6	286.6	503.8	463.5

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. 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.

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

Approximately 3.8% of the City's net position is subject to external restrictions, mostly for the use of bond proceeds.

Governmental Activities

Net position of the City's governmental activities increased from \$176.9 million at June 30, 2015 to \$201.2 million at June 30, 2016 as a result of the excess of revenues over expenses for FY 2016 of \$24.3 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 \$286.6 million to \$302.6 million, as a result of excess revenues over expenses for FY 2016. The City uses 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):

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 83.4	81.8	90.0	88.8	173.4	170.6
Operating grants and contributions	41.8	41.5	-	-	41.8	41.5
Capital grants and contributions	9.9	9.9	-	-	9.9	9.9
General revenues:	-	-	-	-	-	-
Property taxes	256.8	250.9	-	-	256.8	250.9
Other taxes	102.1	100.4	-	-	102.1	100.4
Grants and contributions not restricted to specific programs	43.2	43.2	3.3	2.4	46.5	45.6
Investment earnings	2.7	2.4	0.3	0.2	3.0	2.6
Miscellaneous	9.7	10.5	0.9	1.0	10.6	11.5
Total revenues	<u>549.6</u>	<u>540.6</u>	<u>94.5</u>	<u>92.4</u>	<u>644.1</u>	<u>633.0</u>
Expenses:						
General government	105.3	95.4	-	-	105.3	95.4
Judicial administration	7.0	6.7	-	-	7.0	6.7
Public safety	117.2	112.8	-	-	117.2	112.8
Public works	77.8	70.5	-	-	77.8	70.5
Health and welfare	41.4	39.2	-	-	41.4	39.2
Education	121.8	147.6	-	-	121.8	147.6
Parks, recreation and culture	32.3	31.5	-	-	32.3	31.5
Community development	11.5	7.4	-	-	11.5	7.4
Public utility	-	-	69.0	64.7	69.0	64.7
Interest and other fiscal charges	20.5	20.5	-	-	20.5	20.5
Total expenses	<u>534.8</u>	<u>531.6</u>	<u>69.0</u>	<u>64.7</u>	<u>603.8</u>	<u>596.3</u>
Excess before transfers	14.8	9.0	25.5	27.7	40.3	36.7
Transfers	9.5	9.5	(9.5)	(9.5)	-	-
Change in net position	24.3	18.5	16.0	18.2	40.3	36.7
Beginning net position	176.9	158.4	286.6	268.4	463.5	426.8
Ending net position	<u>\$ 201.2</u>	<u>176.9</u>	<u>302.6</u>	<u>286.6</u>	<u>503.8</u>	<u>463.5</u>

CITY OF NEWPORT NEWS, VIRGINIA

MANAGEMENT’S DISCUSSION AND ANALYSIS

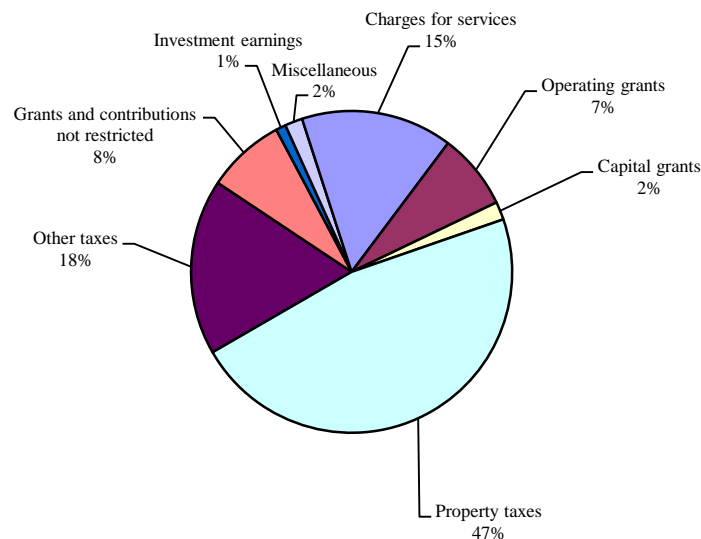
Governmental Activities

The City’s total revenues from governmental activities were \$549.6 million for the fiscal year ended June 30, 2016. The largest source of revenue (\$256.8 million for FY 2016) is real estate and personal property taxes. The City’s assessed real property tax base for FY 2016 increased 2.4%.

Approximately 65% of the City’s revenue from governmental activities comes from some type of tax and 15% comes from fees charged for services.

The City’s expenses cover a wide range of services, with 21.9%, or \$117.2 million, for FY 2016 related to public safety and 22.8%, or \$121.8 million, for FY 2016 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 activities increased by \$16.0 million as a result of revenues exceeding the expenses of the operations. Charges for services make up 95.2% 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 fund balance was \$94.6 million of which \$51.1 million represents an 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 12.5% of the total fund expenditures (11.6% of total revenues), while total fund balance represents 23.2%.

Debt Service Fund

The Debt Service Fund has a fund balance of \$1.9 million. During FY 2016, the fund balance increased by \$0.2 million.

Bond Fund

The Bond Fund accounts for the proceeds of general obligation bond issues, except those of the Proprietary Funds. The Bond Fund fund balance increased from a deficit of \$5.6 million at June 30, 2015 to \$18.7 million at June 30, 2016, due to new bond proceeds.

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 2016

	Original Budget	Final Budget	Actual (Budget Basis)
Revenues:			
Taxes	\$ 356,096,947	356,096,947	358,525,047
Intergovernmental	42,891,963	42,891,963	43,217,511
Other	54,042,447	54,042,447	48,079,933
Total	<u>453,031,357</u>	<u>453,031,357</u>	<u>449,822,491</u>
Expenditures and Transfers:			
Expenditures	404,908,960	414,467,434	406,692,649
Transfers out	48,122,397	48,147,397	46,648,314
Total	<u>453,031,357</u>	<u>462,614,831</u>	<u>453,340,963</u>
Change in fund balance	\$ <u>-</u>	<u>(9,583,474)</u>	<u>(3,518,472)</u>

The difference between the original budget and the final amended budget for the City's General Fund expenditures was approximately \$9.6 million representing an increase in appropriations to fund the following:

\$ 5.30 million General Fund Reserve - Emergency Fund
 \$ 2.70 million General Fund Reserve - Line of Duty
 \$ 1.60 million General Fund Reserve - Self Insurance

Actual General Fund revenues and transfers from other funds were below the final budgeted revenues by \$3.5 million because of lower than expected transfers. Expenditures and transfers to other funds were under budget by \$9.3 million due to spending restraints put in place during the fiscal year and transfers out were under budget by \$1.5 due to a decrease in debt service transfers, offset by 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, 2016, totaled \$1,129.6 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.

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

Construction in progress totaled \$82.9 million for governmental activities at the end of FY 2016 (including certain Public Schools projects under construction).

Construction in progress totaled \$37.6 million for business-type activities at the end of the fiscal year including the following projects: Walker's Dam rehabilitation, \$13.1 million; Upper York 24 water main, \$1.8 million, Lee Hall Dam improvements, \$10.0 million and Diascund Dam Principal Spillway, \$3.8 million.

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

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 88,645,018	\$ 88,823,815	7,976,985	7,976,985	96,622,003	96,800,800
Construction in progress	82,887,814	71,944,449	37,642,073	26,434,865	120,529,887	98,379,314
Buildings	226,712,052	229,332,990	95,284,383	98,932,848	321,996,435	328,265,838
Water systems	-	-	235,664,445	231,227,870	235,664,445	231,227,870
Improvements	106,152,528	104,255,428	9,371,649	9,776,658	115,524,177	114,032,086
Machinery and equipment	47,397,498	46,192,629	6,732,604	8,118,463	54,130,102	54,311,092
Infrastructure	185,107,559	170,362,006	-	-	185,107,559	170,362,006
	<u>\$ 736,902,469</u>	<u>\$ 710,911,317</u>	<u>392,672,139</u>	<u>382,467,689</u>	<u>1,129,574,608</u>	<u>1,093,379,006</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 \$462.2 million, a decrease of 2.0% 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	
		2016	2015	2016	2015	2016	2015
General obligation bonds	\$	355.0	345.5	73.4	86.0	428.4	431.5
Literary loans		4.6	5.0	-	-	4.6	5.0
Revenue bonds		-	-	29.2	35.0	29.2	35.0
Total	\$	<u>359.6</u>	<u>350.5</u>	<u>102.6</u>	<u>121.0</u>	<u>462.2</u>	<u>471.5</u>

The amount of the debt outstanding related to School Board activities is \$74.3 million of the total outstanding general obligation bonds of the governmental activities.

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

The City maintains an AA+ rating from Standard & Poor's Corporation and an Aa1 rating from Moody's Investors Services.

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 2016 for the City was 5.0%, which is a decrease from the average for 2015 of 6.0%, and is consistent with other areas of the Commonwealth. The City's annual population decreased slightly from approximately 182,965 at the end of fiscal year 2015 to 182,385 at the end of fiscal year 2016 according to US Census estimates.

The FY 2017 approved revenue budget for the General Fund increased by 3.1% compared to the FY 2016 adopted budget. The FY 2017 budget includes allocations for 7,304 positions (including schools), a net increase of 66 positions from the FY 2016 budget.

City management believes that the effect of the recession will continue to subside in FY2017, with strengthening signs of economic recovery and this will be reflected more consistently throughout the local economy. 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, 2016

Assets	Primary Government			Discretely presented component units	
	Governmental activities	Business-type activities	Total	Public schools	Others
Cash and cash equivalents	\$ 108,882,090	48,300,538	157,182,628	46,203,771	6,960,843
Restricted cash and investments	30,310,825	16,420,614	46,731,439	-	17,308,001
Accounts receivable, net	25,694,804	13,446,568	39,141,372	2,435,283	11,429,795
Receivable from Industrial Development Authority	10,156,140	-	10,156,140	-	-
Receivable from Primary Government	-	-	-	5,503,971	-
Receivables from other governments	22,322,873	-	22,322,873	9,898,821	-
Due from Pension Fund	3,029,750	-	3,029,750	-	-
Due from OPEB Fund	922,210	-	922,210	-	-
Inventory, at cost	1,922,878	3,579,702	5,502,580	1,840,988	63,141
Land held for lease or resale	-	7,102,444	7,102,444	-	30,176,588
Wetlands credits	-	5,530,135	5,530,135	-	-
Net pension asset	4,353,086	342,830	4,695,916	1,014,889	-
Capital assets:					
Nondepreciable capital assets:					
Land	88,645,018	7,976,985	96,622,003	2,896,704	6,604,658
Construction in progress	82,887,814	37,642,073	120,529,887	14,184,064	18,243,423
Depreciable capital assets:					
Buildings	353,761,532	152,155,622	505,917,154	59,385,962	202,153,256
Improvements	211,320,767	-	211,320,767	56,187,459	14,327,640
Water system	-	424,137,359	424,137,359	-	-
Airport assets	-	-	-	-	165,505,626
Machinery and equipment	159,818,062	34,960,887	194,778,949	66,038,386	6,626,201
Infrastructure	532,012,039	-	532,012,039	-	2,543,500
Total capital assets	1,428,445,232	656,872,926	2,085,318,158	198,692,575	416,004,304
Less accumulated depreciation	(691,542,763)	(264,200,787)	(955,743,550)	(110,426,154)	(144,784,362)
Capital assets, net	736,902,469	392,672,139	1,129,574,608	88,266,421	271,219,942
Restricted assets:					
Permanently restricted cash	1,890,807	-	1,890,807	-	-
Other assets	-	-	-	13,288,644	1,323,906
Total assets	946,387,932	487,394,970	1,433,782,902	168,452,788	338,482,216
Deferred Outflows of Resources					
Deferred pension experience loss	5,091,053	2,655,255	7,746,308	676,842	-
Deferred pension contributions	28,166,706	3,150,717	31,317,423	7,688,476	259,970
Deferred VRS contributions	2,845,406	273,295	3,118,701	21,072,774	-
Deferred swap outflow	-	-	-	-	90,311
Debt refundings resulting in loss transactions	13,896,076	3,478,645	17,374,721	-	6,252,879
Total deferred outflows	49,999,241	9,557,912	59,557,153	29,438,092	6,603,160
Liabilities					
Accounts payable	22,491,132	4,685,027	27,176,159	9,118,799	4,590,363
Accrued liabilities	8,385,284	5,533,997	13,919,281	27,704,752	649,872
Deposits	3,709,814	-	3,709,814	-	29,195
Unearned revenues	169,576	31,488,324	31,657,900	63,600	-
Payable to Newport News Public Schools	5,503,971	-	5,503,971	-	-
Payable to Primary Government	-	-	-	-	10,156,140
Long term liabilities:					
Due within one year	67,790,087	15,145,652	82,935,739	4,871,062	11,472,637
Due in more than one year	682,596,640	137,039,277	819,635,917	388,069,193	102,641,846
Total liabilities	790,646,504	193,892,277	984,538,781	429,827,406	129,540,053
Deferred Inflows of Resources					
Property taxes collected in advance	858,606	-	858,606	-	-
Deferred pension investment gains	3,088,997	384,480	3,473,477	5,975,911	169,476
Deferred VRS investment gains	627,615	54,575	682,190	22,872,811	-
Unearned revenues	-	-	-	-	13,906
Deferred grant proceeds	-	-	-	1,413,860	-
Total deferred inflows	4,575,218	439,055	5,014,273	30,262,582	183,382
Net Position					
Net investment in capital assets	384,685,456	299,063,108	683,748,564	76,396,233	169,966,051
Restricted for:					
Capital projects	2,369,909	-	2,369,909	712,968	14,794,482
Debt service	1,890,807	-	1,890,807	-	1,511,060
Grants	1,967,647	-	1,967,647	-	-
Other governmental purposes	13,104,804	-	13,104,804	4,391,234	-
Unrestricted (deficit)	(202,853,172)	3,558,442	(199,294,730)	(343,699,543)	29,090,348
Total net position	\$ 201,165,451	302,621,550	503,787,001	(262,199,108)	215,361,941

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Statement of Activities
Year ended June 30, 2016

	Expenses	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
Primary Government:								
Governmental activities:								
General government	\$ 105,287,990	13,063,145	-	9,891,763	(82,333,082)	-	(82,333,082)	
Judicial administration	7,000,968	2,118,113	587,106	-	(4,295,749)	-	(4,295,749)	
Public safety	117,228,275	5,778,868	3,827,226	-	(107,622,181)	-	(107,622,181)	
Public works	77,766,098	54,559,279	16,611,997	-	(6,594,822)	-	(6,594,822)	
Health and welfare	41,363,323	38,715	4,432,633	-	(36,891,975)	-	(36,891,975)	
Education	121,829,209	-	12,146,827	-	(109,682,382)	-	(109,682,382)	
Parks, recreation and culture	32,294,586	7,534,717	1,089,421	-	(23,670,448)	-	(23,670,448)	
Community development	11,490,635	285,664	3,140,584	-	(8,064,387)	-	(8,064,387)	
Interest and other fiscal charges	20,545,591	-	-	-	(20,545,591)	-	(20,545,591)	
Total governmental activities	534,806,675	83,378,501	41,835,794	9,891,763	(399,700,617)	-	(399,700,617)	
Business-type activities:								
Public utility	69,011,682	89,992,744	-	3,352,599	-	24,333,661	24,333,661	
Total business-type activities	69,011,682	89,992,744	-	3,352,599	-	24,333,661	24,333,661	
Total Primary Government	\$ 603,818,357	173,371,245	41,835,794	13,244,362	(399,700,617)	24,333,661	(375,366,956)	
Component units:								
Public Schools	\$ 317,605,731	7,068,080	62,893,347	885,030			(246,759,274)	-
Peninsula Airport Commission	14,477,541	7,771,694	-	7,091,355			-	385,508
Economic and Industrial Development Authorities	23,981,231	41,257,309	-	-			-	17,276,078
Total component units	\$ 356,064,503	56,097,083	62,893,347	7,976,385			(246,759,274)	17,661,586
General revenues:								
City Taxes:								
General property				256,787,386	-	256,787,386	-	-
E-911 service				701,894	-	701,894	-	-
Local sales and use				23,601,270	-	23,601,270	-	-
Consumers' utility				6,262,091	-	6,262,091	-	-
Consumption				669,850	-	669,850	-	-
Telecom sales and use				11,289,782	-	11,289,782	-	-
Business license				16,383,239	-	16,383,239	-	-
Rental car				1,115,643	-	1,115,643	-	-
Motor vehicle license				4,096,782	-	4,096,782	-	-
Bank stock taxes				804,718	-	804,718	-	-
Recordation and wills				1,490,565	-	1,490,565	-	-
Tobacco				4,808,217	-	4,808,217	-	-
Hotel and motel room tax				4,297,160	-	4,297,160	-	-
Restaurant food tax				25,551,404	-	25,551,404	-	-
Tourism zone tax				81,172	-	81,172	-	-
Amusement				929,005	-	929,005	-	-
Total City Taxes				358,870,178	-	358,870,178	-	-
Grants and contributions not restricted to specific programs				43,217,511	-	43,217,511	149,596,745	-
Payment from the City				-	-	-	99,916,844	-
Investment earnings				2,688,086	276,491	2,964,577	28,693	259,864
Miscellaneous				9,711,606	958,210	10,669,816	-	432,466
Transfers				9,500,000	(9,500,000)	-	-	-
Total general revenues and transfers				423,987,381	(8,265,299)	415,722,082	249,542,282	692,330
Change in net position				24,286,764	16,068,362	40,355,126	2,783,008	18,353,916
Net position beginning of year				176,878,687	286,553,188	463,431,875	(264,982,116)	197,008,025
Net position end of year	\$			201,165,451	302,621,550	503,787,001	(262,199,108)	215,361,941

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Balance Sheet
Governmental Funds
June 30, 2016

	General fund	Debt service fund	Bond fund	Nonmajor governmental funds	Total governmental funds
Assets					
Cash and cash equivalents	\$ 73,620,688	171,607	-	30,902,059	104,694,354
Restricted cash	-	32,978	28,353,298	1,924,549	30,310,825
Accounts receivable, net	22,009,294	-	-	3,560,339	25,569,633
Receivable from component unit	10,156,140	-	-	-	10,156,140
Receivable from other funds	1,123,526	-	-	2,970,128	4,093,654
Receivables from other governments	15,102,270	-	-	7,220,603	22,322,873
Due from Pension Fund	3,029,750	-	-	-	3,029,750
Due from OPEB Fund	922,210	-	-	-	922,210
Inventory, at cost	1,280,549	-	-	6,807	1,287,356
Restricted assets:					
Permanently restricted cash	-	1,890,807	-	-	1,890,807
Total assets	<u>\$ 127,244,427</u>	<u>2,095,392</u>	<u>28,353,298</u>	<u>46,584,485</u>	<u>204,277,602</u>
Liabilities					
Accounts payable	\$ 15,312,081	101,107	2,972,810	3,807,176	22,193,174
Accrued liabilities	737,710	70,500	1,220,747	489,009	2,517,966
Deposits	3,709,814	-	-	-	3,709,814
Unearned revenues	136,553	-	-	33,023	169,576
Payable to Newport News Public Schools	-	-	5,503,971	-	5,503,971
Payable to other funds	-	-	-	4,093,654	4,093,654
Total liabilities	<u>19,896,158</u>	<u>171,607</u>	<u>9,697,528</u>	<u>8,422,862</u>	<u>38,188,155</u>
Deferred Inflows of Resources					
Unavailable revenue-property taxes	11,918,057	-	-	-	11,918,057
Property taxes collected in advance	858,606	-	-	-	858,606
Unavailable revenue-stormwater fees	-	-	-	600,486	600,486
Total deferred inflows of resources	<u>12,776,663</u>	<u>-</u>	<u>-</u>	<u>600,486</u>	<u>13,377,149</u>
Fund Balances					
Nonspendable	11,436,689	-	-	-	11,436,689
Restricted	224,814	1,890,807	18,655,770	17,217,546	37,988,937
Committed	-	32,978	-	20,773,292	20,806,270
Assigned	31,855,250	-	-	-	31,855,250
Unassigned	51,054,853	-	-	(429,701)	50,625,152
Total fund balances	<u>94,571,606</u>	<u>1,923,785</u>	<u>18,655,770</u>	<u>37,561,137</u>	<u>152,712,298</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 127,244,427</u>	<u>2,095,392</u>	<u>28,353,298</u>	<u>46,584,485</u>	<u>204,277,602</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, 2016

Fund balances – total governmental funds		\$ 152,712,298
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Net pension assets are not current financial resources and, therefore, are unavailable in the funds.		4,353,086
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Governmental capital assets	\$ 1,364,128,392	
Less accumulated depreciation	<u>(652,484,530)</u>	
		711,643,862
Other long-term assets are not available to pay for current period expenditures and, therefore, are unavailable in the funds.		12,518,543
Internal service funds are used by management to charge the costs of certain activities to individual funds.	29,336,867	
Adjustment to add back accrued vacation included below	275,897	
Adjustment to add back capital lease included below	<u>227,702</u>	
		29,840,466
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.		13,896,076
Deferred charge of current year employer contributions to the pension plans are reported as deferred outflows of resources in the government-wide financial statements and are not reported in the governmental fund statements.		31,012,112
Differences between expected and actual experience related to the pension plan that result in an experience loss are reported as deferred inflows of resources in the government-wide financial statements but are not reported in the governmental fund statements.		5,091,053
Unmatured interest payable reported in governmental activities will not be paid with current financial resources and, therefore, are not reported in the funds.		(5,798,706)
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	(389,018,192)	
Literary fund bonds	(4,618,588)	
Capital lease payable	(320,418)	
Land lease payable	(509,189)	
Landfill liability	(4,104,000)	
Accrued vacation	(19,265,712)	
Workers' compensation and other claims	(13,768,729)	
Net pension liability	(280,010,206)	
Net OPEB obligations	(34,586,201)	
Net line of duty obligations	(922,492)	
Incurred but not reported claims	<u>(3,263,000)</u>	
		(750,386,727)
Net difference between projected and actual earnings on pension plan investments that result in an investment gain are reported as deferred inflows of resources in the government-wide financial statements but are not reported in the governmental fund statements.		<u>(3,716,612)</u>
Net position of governmental activities		<u>\$ 201,165,451</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, 2016

	General fund	Debt service fund	Bond fund	Nonmajor governmental funds	Total governmental funds
Revenues:					
General property taxes	\$ 256,442,255	-	-	-	256,442,255
Other local taxes	102,082,792	-	-	-	102,082,792
Licenses and permits	3,413,037	-	-	-	3,413,037
Fines and forfeitures	1,516,694	-	-	-	1,516,694
Intergovernmental	43,217,511	12,146,827	-	37,068,571	92,432,909
Charges for services	21,444,653	-	-	54,762,938	76,207,591
Interest and rent	2,400,088	-	-	269,138	2,669,226
Recovered costs	5,653,366	-	-	850	5,654,216
Miscellaneous	4,152,095	53,887	-	5,162	4,211,144
Total revenues	<u>440,322,491</u>	<u>12,200,714</u>	<u>-</u>	<u>92,106,659</u>	<u>544,629,864</u>
Expenditures:					
Current operating:					
General government	92,996,716	-	-	1,519,063	94,515,779
Judicial administration	6,442,567	-	-	-	6,442,567
Public safety	108,664,303	-	-	4,534,477	113,198,780
Public works	11,410,425	-	-	56,076,306	67,486,731
Health and welfare	34,947,015	-	-	6,513,882	41,460,897
Education	118,300,000	-	-	2,000,000	120,300,000
Parks, recreation and culture	26,711,621	-	-	1,684,586	28,396,207
Community development	7,587,165	-	-	3,386,500	10,973,665
Debt service:					
Principal	-	38,000,442	-	-	38,000,442
Interest and other charges	-	20,192,312	477,663	-	20,669,975
Capital outlay	-	-	29,084,216	27,226,291	56,310,507
Total expenditures	<u>407,059,812</u>	<u>58,192,754</u>	<u>29,561,879</u>	<u>102,941,105</u>	<u>597,755,550</u>
Excess (deficiency) of revenues over (under) expenditures	<u>33,262,679</u>	<u>(45,992,040)</u>	<u>(29,561,879)</u>	<u>(10,834,446)</u>	<u>(53,125,686)</u>
Other financing sources (uses):					
Transfers in	9,500,000	46,176,852	-	14,726,054	70,402,906
Transfers out	(48,648,314)	-	-	(12,254,592)	(60,902,906)
Payments to refunded bonds escrow agent	-	-	(39,613,981)	-	(39,613,981)
Premium on bonds refunded	-	-	6,728,336	-	6,728,336
Refunded bonds issuance of debt	-	-	33,190,000	-	33,190,000
Premium on bonds	-	-	4,591,714	-	4,591,714
Bond and note issuance of debt	-	-	48,890,000	-	48,890,000
Total other financing sources (uses), net	<u>(39,148,314)</u>	<u>46,176,852</u>	<u>53,786,069</u>	<u>2,471,462</u>	<u>63,286,069</u>
Net changes in fund balances	<u>(5,885,635)</u>	<u>184,812</u>	<u>24,224,190</u>	<u>(8,362,984)</u>	<u>10,160,383</u>
Fund balances at June 30, 2015	<u>100,457,241</u>	<u>1,738,973</u>	<u>(5,568,420)</u>	<u>45,924,121</u>	<u>142,551,915</u>
Fund balances at June 30, 2016	<u>\$ 94,571,606</u>	<u>1,923,785</u>	<u>18,655,770</u>	<u>37,561,137</u>	<u>152,712,298</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, 2016

Net change in fund balances – total governmental funds \$ 10,160,383

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	\$ 56,310,507
Plus: Capital expenditures not included in capital outlays, net of disposals	8,932,348
Less: Non-capitalized asset	(18,393,808)
Depreciation expense	<u>(27,962,392)</u>

18,886,655

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.

3,655,351

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.

345,131

Change in pension asset valuation. These assets are not reported in the governmental funds.

691,345

Investment gains are recognized resulting from deferred inflows or outflows in the Statement of Activities, but are not reported as gains or losses in the funds.

25,571,927

Experience loss and change in proportion are recognized resulting from deferred inflows or outflow in the Statement of Activities, but are not reported as gains or losses in the funds.

5,091,053

Change in annual employer contributions to the pension funds. These activities are reported as deferred outflows in the Statement of Activities, but are not reported in the funds.

5,233,061

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	72,990,442
Debt issued (and related costs)	(82,080,000)
Premium on issuance of long-term debt	(5,586,256)
Amortization of refunding losses	<u>1,049,330</u>

(13,626,484)

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	124,384
Capital leases payable	113,329
Landfill liability	274,000
Accrued vacation	(559,082)
Net pension obligation	(33,418,683)
Net OPEB obligation	(3,009,063)
Net line of duty obligation	1,750,227
Workers' compensation and other claims	(614,246)
Incurred but not reported liabilities	<u>273,469</u>

(35,065,665)

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	232,630
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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 and capital leases).

3,111,377

Change in net position of governmental activities	<u><u>\$ 24,286,764</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, 2016

Assets	Major Fund - Public Utility	Internal Service Fund
Current assets:		
Cash and cash equivalents	\$ 48,300,538	4,187,736
Restricted cash	16,420,614	—
Accounts receivable, net	13,446,568	125,171
Inventory	3,579,702	635,522
Total current assets	<u>81,747,422</u>	<u>4,948,429</u>
Noncurrent assets:		
Land held for resale	7,102,444	—
Wetlands credits	5,530,135	—
Capital assets:		
Nondepreciable capital assets:		
Land	7,976,985	20,257
Construction in progress	37,642,073	444,784
Depreciable capital assets:		
Buildings	152,155,622	3,469,775
Improvements	—	1,076,423
Water system	424,137,359	—
Machinery and equipment	34,960,887	59,305,601
Total capital assets	656,872,926	64,316,840
Less accumulated depreciation	<u>(264,200,787)</u>	<u>(39,058,233)</u>
Capital assets, net	392,672,139	25,258,607
Net pension asset	342,830	—
Total noncurrent assets	<u>405,647,548</u>	<u>25,258,607</u>
Total assets	<u>487,394,970</u>	<u>30,207,036</u>
Deferred Outflows of Resources		
Deferred pension experience loss	2,655,255	—
Deferred pension contributions	3,150,717	—
Deferred VRS contributions	273,295	—
Debt refundings resulting in loss transactions	<u>3,478,645</u>	<u>—</u>
Total deferred outflows	<u>9,557,912</u>	<u>—</u>
Liabilities		
Liabilities:		
Current liabilities:		
Accounts payable	4,685,027	297,958
Accrued liabilities	5,533,997	419,086
Unearned revenues	31,488,324	—
General obligation bonds payable, net	13,846,714	—
Revenue bonds payable, net	<u>1,298,938</u>	<u>—</u>
Total current liabilities	<u>56,853,000</u>	<u>717,044</u>
Noncurrent liabilities:		
Deposits	3,824,476	—
Lease payable	—	153,125
General obligation bonds payable, net	64,243,223	—
Revenue bonds payable, net	34,119,415	—
Net pension liability	<u>34,852,163</u>	<u>—</u>
Total noncurrent liabilities	<u>137,039,277</u>	<u>153,125</u>
Total liabilities	<u>193,892,277</u>	<u>870,169</u>
Deferred Inflows of Resources		
Deferred pension investment gain	384,480	—
Deferred VRS investment gain	<u>54,575</u>	<u>—</u>
Total deferred inflows	<u>439,055</u>	<u>—</u>
Net Position		
Net position:		
Net investment in capital assets	299,063,108	25,258,607
Unrestricted	<u>3,558,442</u>	<u>4,078,260</u>
Total net position	<u>\$ 302,621,550</u>	<u>29,336,867</u>

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, 2016

	<u>Major Fund - Public Utility</u>	<u>Internal Service Fund</u>
Operating revenues:		
Water sales	\$ 59,913,931	-
Charges for services	25,423,843	12,929,313
Miscellaneous	4,654,970	103,265
Total operating revenues	<u>89,992,744</u>	<u>13,032,578</u>
Operating expenses:		
Personal services	26,393,569	3,302,323
Contractual services	6,702,043	96,799
Internal services	1,018,408	158,332
Materials and supplies	11,981,319	4,144,110
Depreciation	13,809,239	4,632,911
Other	2,340,102	-
Total operating expenses	<u>62,244,680</u>	<u>12,334,475</u>
Operating income	<u>27,748,064</u>	<u>698,103</u>
Nonoperating revenues (expenses):		
Interest revenue	276,491	18,860
Loss on disposal of capital assets	(20,184)	(71,718)
Amortization on bond premium	958,210	-
Loss on long-term debt	(341,359)	-
Interest expense	(6,405,459)	-
Total nonoperating expenses, net	<u>(5,532,301)</u>	<u>(52,858)</u>
Income before capital contributions and transfers out	<u>22,215,763</u>	<u>645,245</u>
Capital contributions for capital assets	3,352,599	2,512,159
Transfers out	(9,500,000)	-
Change in net position	16,068,362	3,157,404
Net position at June 30, 2015	<u>286,553,188</u>	<u>26,179,463</u>
Net position at June 30, 2016	<u>\$ 302,621,550</u>	<u>29,336,867</u>

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2016

	Major Fund - Public Utility	Internal Service Fund
Cash flows from operating activities:		
Receipts from customers	\$ 89,329,791	13,032,578
Payments to suppliers	(18,854,293)	(4,817,333)
Payments to employees	(24,113,825)	(3,302,323)
Other payments	(2,340,102)	—
Net cash provided by operating activities	<u>44,021,571</u>	<u>4,912,922</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(24,138,565)	(8,478,956)
Contributed capital	3,352,599	2,512,159
Proceeds from sale of capital assets	104,690	325,181
Premium on bonds issued	6,239,273	—
Repayment and retirement of long-term debt, net	(14,934,104)	—
Refund on debt	(4,880,000)	—
Interest paid	(6,405,459)	—
Net cash used in capital and related financing activities	<u>(40,661,566)</u>	<u>(5,641,616)</u>
Cash flows used in noncapital financing activities -		
Transfer to other funds	<u>(9,500,000)</u>	<u>—</u>
Cash flows provided by investing activities -		
Interest received	<u>276,491</u>	<u>18,860</u>
Decrease in cash and restricted cash	(5,863,504)	(709,834)
Cash, cash equivalents, and restricted cash at beginning of year	<u>70,584,656</u>	<u>4,897,570</u>
Cash, cash equivalents, and restricted cash at end of year	\$ <u><u>64,721,152</u></u>	<u><u>4,187,736</u></u>
Reported as:		
Cash and cash equivalents	\$ 48,300,538	4,187,736
Restricted cash	<u>16,420,614</u>	<u>—</u>
Total cash, cash equivalents and restricted cash	\$ <u><u>64,721,152</u></u>	<u><u>4,187,736</u></u>
Cash flows from operating activities:		
Operating income	\$ 27,748,064	698,103
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation	13,809,239	4,632,911
Change in:		
Accounts receivable	276,680	(125,171)
Inventories	(9,535)	(73,387)
Accounts payable, accrued liabilities, and leases payable	2,174,358	(219,534)
Unearned revenues	(939,634)	—
Deposits	212,020	—
Net pension asset	(63,854)	—
Net pension liability	7,746,988	—
Deferred outflow of resources	(2,960,922)	—
Deferred inflow of resources	(3,971,833)	—
Total adjustments	<u>16,273,507</u>	<u>4,214,819</u>
Net cash provided by operating activities	\$ <u><u>44,021,571</u></u>	<u><u>4,912,922</u></u>

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2016

Assets	Pension, Other Postemployment Benefits, & Line of Duty Act Fund	Agency Funds
Cash and cash equivalents	\$ 14,836,999	5,558,756
Cash and cash equivalents with trustee	26,477,783	—
Investments:		
Corporate and government bonds	111,128,806	—
Domestic stocks	424,411,200	—
Domestic mutual funds	21,439,933	—
International stocks	93,901,194	—
International mutual funds	33,413,172	—
Private equities	20,452,091	—
Real estate and timber	102,647,718	—
Accounts receivable	—	4,985,084
Due from other components	62,302	—
Sales receivable	3,857,323	—
Claims Fluctuation Reserve (Anthem)	1,753,091	—
Total assets	\$ 854,381,612	10,543,840
Liabilities		
Accounts payable	\$ 1,936,384	1,636,278
Accrued vacation	44,070	—
Due to other governments	—	5,679,313
Due to other agencies	—	3,228,249
Due to City	3,951,960	—
Purchases payable	2,788,185	—
Total liabilities	8,720,599	10,543,840
Net Position		
Assets held in trust:		
Restricted for pensions benefits	843,120,549	
Restricted	2,540,464	
Total net position	\$ 845,661,013	

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 & Other Postemployment Benefits

Year ended June 30, 2016

	Pension, Other Postemployment Benefits, & Line of Duty Act Fund
Additions:	
Employer Contributions:	
City General Fund	\$ 38,881,417
Waterworks Fund	4,254,169
School Operating Fund	7,688,476
Employee Contributions:	
City General Fund	4,849,357
Waterworks Fund	626,246
School Operating Fund	712,943
Other Contributions:	
Income from Leave Exchange	147,558
Employee Buy-back	80,032
Total contributions	<u>57,240,198</u>
Investment income:	
Net depreciation - bonds	(2,890,467)
Net appreciation - stocks	(24,457,417)
Interest	3,374,980
Dividends	11,257,330
Real estate operating loss, net	7,516,167
Commission recapture	44,556
Other investment income	41,047
Total investment loss	<u>(5,113,804)</u>
Less investment expenses:	
Other investment expenses	<u>(3,473,397)</u>
Net investment loss	<u>(8,587,201)</u>
Total additions	<u>48,652,997</u>
Deductions:	
Benefits paid to participants	79,956,254
Refunds of member contributions	72,077
Administrative expenses	1,006,360
Portability Expense	15,440
Total deductions	<u>81,050,131</u>
Change in net position	<u>(32,397,134)</u>
Net position held in trust for pension benefits at June 30, 2015	<u>878,058,147</u>
Net position held in trust for pension benefits at June 30, 2016	\$ <u><u>845,661,013</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, 2016

(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, as defined by accounting principles generally accepted in the United States of America (GAAP), 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, 2016

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. The PAC operates the Newport News/Williamsburg International Airport. The City appoints four of PAC's six commission members, thus holding a voting majority of the board. The City has a financial benefit/burden relationship with the PAC as described within GAAP. The PAC's governing body is not substantially the same as the City, nor does the PAC exclusively serve the City, or have its total debt outstanding repaid by the City. 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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

legally separate component units for which the Primary Government is financially accountable.

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.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

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, 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.

CITY OF NEWPORT NEWS, VIRGINIA

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Additionally, the City reports the following fund types:

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.

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.

Line of Duty Act Fund accounts for all contributions and investments accumulated for hazardous duty personnel, including volunteers and paid full time and part time employees who fall under the guidelines of eligible personnel under the Line of Duty Act. The fund provides benefits to all who die or become disabled in the line of duty.

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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

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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 non-operating revenues and expenses.

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

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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 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 2016 was \$1.22 per \$100 of assessed value.

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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 2016 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

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, 2016, is composed of the following:

General Fund – Allowance for Uncollectibles

Taxes receivable:

Real Estate	\$	2,614,748
Personal Property		<u>3,140,223</u>
Total Taxes	\$	<u>5,754,971</u>

Non-Major Governmental –

Special Revenue Funds – accounts receivable	\$	1,883,345
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Public Utility Fund - accounts receivable	\$	1,564,483
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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

(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. 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 \$167,537 was capitalized during fiscal year 2016.

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, 2016, the City holds capital assets related to school property with a net book value of approximately \$144,915,000.

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

CITY OF NEWPORT NEWS, VIRGINIA

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(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 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 the 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 rate 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.

(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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

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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.

(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 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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

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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 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 2016, the General Fund's unassigned fund balance is 11.35% 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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Notes to Basic Financial Statements
June 30, 2016

Details of the fund balance classifications of the Governmental funds at June 30, 2016 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	\$ 1,280,549	-	-	-	-
Long-term note receivable	10,156,140	-	-	-	-
General government:					
Administration	-	-	-	2,806,140	-
Self insured activities	-	-	-	22,623,838	-
Projects	-	-	-	3,571,271	-
Judicial administration	-	-	-	3,420	-
Public safety	-	-	-	740,375	-
Public works	-	224,814	-	1,542,420	-
Health and welfare	-	-	-	70,011	-
Parks, recreation, and cultural	-	-	-	462,939	-
Community development	-	-	-	10,879	-
Imprest funds	-	-	-	23,957	-
Unassigned	-	-	-	-	51,054,853
Total General Fund	<u>\$ 11,436,689</u>	<u>224,814</u>	<u>-</u>	<u>31,855,250</u>	<u>51,054,853</u>
Other Funds:					
Debt Service:					
Future Debt Service	\$ -	1,890,807	32,978	-	-
Bond:					
Buildings	-	988,028	-	-	-
Community development	-	1,410,511	-	-	-
Environmental	-	2,694,730	-	-	-
Equipment	-	183,611	-	-	-
Parks, recreation, and cultural	-	371,830	-	-	-
Streets and bridges	-	2,971,528	-	-	-
Sanitary Sewer/Solid Waste	-	2,160,917	-	-	-
Stormwater	-	1,441,770	-	-	-
Future capital projects	-	6,432,845	-	-	-
Nonmajor Governmental:					
Economic Development	-	-	1,189,294	-	-
Law Library	-	25	173,961	-	-
Environmental	-	-	13,673	-	-
Criminal Justice Academy	-	-	198,210	-	-
Federal and State Grants	-	4,337,556	-	-	-
Community development	-	-	544,681	-	(146,680)
Equipment	-	-	580,107	-	-
Parks, recreation, and cultural	-	-	106,933	-	(283,021)
Buildings	-	-	2,050,022	-	-
Streets and bridges	-	-	1,946,584	-	-
Waste water	-	1,082,836	-	-	-
Solid waste	-	2,715,738	-	-	-
Stormwater	-	9,081,391	-	-	-
Future capital projects	-	-	13,969,827	-	-
Total Other Funds	<u>\$ -</u>	<u>37,764,123</u>	<u>20,806,270</u>	<u>-</u>	<u>(429,701)</u>
Total fund balance	<u>\$ 11,436,689</u>	<u>37,988,937</u>	<u>20,806,270</u>	<u>31,855,250</u>	<u>50,625,152</u>

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

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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:

	Governmental Activities
General activities:	
Public works	\$ 224,814
Other activities:	
Debt Service	1,890,807
Law Library	25
Grants	1,967,647
Capital Projects	2,369,909
Stormwater, Solid Waste, Wastewater	12,879,965
Total restricted net position	<u>\$ 19,333,167</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

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debt, and employer contributions to the pension plans made after the measurement date. 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.

The City reported a net difference between projected and actual earnings on pension plan investments resulting in a deferred inflow. These amounts will be deferred and recognized in accordance in with GAAP.

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

Effective June 15, 2015, the City adopted the provisions of Governmental Accounting Standards Board GASB Statement No. 72, *Fair Value Measurement and Application* (Statement No. 72). This Implementation required the City to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The adoption of this statement resulted in additional disclosures to the City's fair value of investments. This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value with three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security. The additional disclosures are located in footnote 2.

(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

CITY OF NEWPORT NEWS, VIRGINIA

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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, 2016 are classified in the accompanying financial statements, except for Pension and OPEB Funds' as follows:

	<u>Carrying amount</u>
Cash and deposits:	
Cash on hand	\$ 124,463
Deposits with banks	<u>72,898,754</u>
Total cash and deposits	73,023,217
Investments:	
Local Government Investment Pool (LGIP)	157,476,280
Deposits with banks – Money market accounts	1,062,699
Peninsula Airport Commission – Certificates of deposit	1,002,459
Commonwealth cash reserve	3,500,127
Virginia State Non-Arbitrage Pool (VA SNAP)	46,035,904
Debt Service – QZAB Sinking Fund	1,890,807
Schools' escrow funds	250,000
IDA escrow funds	<u>186,083</u>
Total deposits and investments	<u>\$ 284,427,576</u>

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Cash and investments as of June 30, 2016 are classified in the accompanying financial statements, except for Pension and OPEB Funds, as follows:

	<u>June 30, 2016</u>
Statements of net position:	
Primary Government:	
Cash and cash equivalents	\$ 157,182,628
Restricted cash	46,731,439
Permanently restricted cash	1,890,807
Component Units:	
Cash and cash equivalents	53,164,614
Restricted cash	17,308,001
Fiduciary Funds:	
Cash and cash equivalents – Line of Duty Act Fund	2,591,331
Cash and cash equivalents – Agency Funds	<u>5,558,756</u>
Total cash and investments	<u>\$ 284,427,576</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, bankers’ acceptances, repurchase agreements, the LGIP, a 2a-7 like pool, the VA 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.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

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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 laddered 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, 2016, 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, 2016, 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, 2016, 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.

		Credit	Weighted Average Maturity
<u>Assets held by the Treasurer</u>	<u>Fair Value</u>	<u>Rating</u>	<u>(Years)</u>
LGIP	\$ 157,476,280	AAAm	0.08
Commonwealth Cash Reserve (AIM) – Underlying:			
U.S. Agencies	100,008	A-1	0.31
U.S. Agencies	200,236	A-1+	1.28
U.S. Agencies	100,988	AA-	2.13
U.S. Agencies	100,919	AA	1.71
U.S. Agencies	2,838,254	AA+	2.13
Supranational Bonds	150,066	AAA	1.54
Money Market	9,656	AAAm	0.00
SNAP	<u>46,035,904</u>	AAAm	0.09
Total Investments	<u>\$ 207,012,311</u>		

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June 30, 2016

Fair Value Hierarchy

The City categorizes its fair value measurements within the fair value hierarchy within GAAP, based on the valuation inputs used to measure fair value of the assets, with Level 1 inputs being quoted prices in an active market for identical assets; Level 2 inputs being significant other observable inputs; and Level 3 inputs being significant unobservable inputs (the City does not value any of its investments using level 3 inputs).

The following is a summary of the fair value hierarchy of the fair value of investments of City as of June 30, 2016.

		<u>Fair Value Measurements Using</u>	
		Quoted Prices in Active Markets for Identical Assets	Quoted Prices in Active Markets for Identical Assets
Investments by fair value level	<u>6/30/2016</u>	<u>(Level 1)</u>	<u>(Level 2)</u>
Time deposits	\$ 300,244	\$ 300,244	\$ -
U.S. Government agencies	1,638,884	-	1,638,884
U.S. treasury securities	1,019,167	-	1,019,167
U.S. corporate bonds	357,466	-	357,466
Supranational bonds	150,066	-	150,066
Money market funds	9,656	9,656	-
Collateralized mortgage obligation	24,643	-	24,643
Total at fair value	<u>\$ 3,500,127</u>	<u>\$ 309,900</u>	<u>\$ 3,190,227</u>
Investments at amortized cost			
LGIP	157,476,280		
SNAP	<u>46,035,904</u>		
Total at amortized cost	<u>203,512,184</u>		
Total	<u>\$ 207,012,311</u>		

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CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2016

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	\$ 1,368,417
Deposits with banks – repurchase agreements	10,877,251
Pension trust fund money markets	<u>26,477,783</u>
Total cash and deposits	<u>\$ 38,723,451</u>
Investments:	
Debt securities	\$111,128,806
Equity investments	573,165,499
Private equities	20,452,091
Pension fund real estate funds	<u>102,647,718</u>
Total investments	<u>\$807,394,114</u>
 Total deposits and investments	 <u><u>\$846,117,565</u></u>

The Pension and OPEB funds' cash and investment as of June 30, 2016, are classified in the accompanying financial statements as follows:

	<u>June 30, 2016</u>
Cash and cash equivalents	\$ 12,245,668
Cash and cash equivalents with trustee	26,477,783
Investments:	
Debt securities	111,128,806
Equity investments	573,165,499
Private equities	20,452,091
Real estate	<u>102,647,718</u>
Total deposits and investments	<u><u>\$846,117,565</u></u>

Fair Value Hierarchy

The Pension Fund categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest level to quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to significant unobservable inputs (level 3 measurements).

CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
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The Plan has the following recurring fair value measurements as of June 30, 2016:

Investments and Derivative Instruments measured at Fair Value - Pension

		Fair Value Measurements Using		
	Fair Value at 6/30/2016	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments by fair value level				
Debt securities:				
Asset backed securities	\$ 10,268,678	\$ -	\$ 10,268,678	\$ -
Collateralized mortgage obligation	7,193,833	-	-	7,193,833
Corporate bonds	60,867,844	-	60,867,844	-
Government agencies	14,794,479	-	14,794,479	-
Mortgage pass-through	8,458,058	-	-	8,458,058
U.S. treasury securities	9,545,914	-	9,545,914	-
Total debt securities	111,128,806	-	95,476,915	15,651,891
Equity securities:				
Consumer goods	44,142,519	44,142,519	-	-
Energy	10,207,885	10,207,885	-	-
Financials	32,701,785	32,701,785	-	-
Health care	18,232,320	18,232,320	-	-
Industrials	32,141,057	32,141,057	-	-
Information technology	38,777,756	38,777,756	-	-
Materials	8,139,643	8,139,643	-	-
Mutual funds	3,067,383	3,067,383	-	-
Other	309,044	309,044	-	-
Real estate investment trusts	4,396,014	4,396,014	-	-
Telecommunication services	1,190,129	1,190,129	-	-
Utilities	6,190,791	6,190,791	-	-
Total equity securities	199,496,326	199,496,326	-	-
Total investments at fair value level	\$ 310,625,132	\$ 199,496,326	\$ 95,476,915	\$ 15,651,891
Investments measured at the net asset value (NAV)				
Equity investments:				
Co-mingled international equity fund	\$ 243,505,012			
Co-mingled small cap equity fund	104,933,613			
Total equity investments	348,438,625			
Private equity - private equity partnerships	20,452,091			
Real assets:				
Real estate	38,892,695			
Timber	63,755,023			
Total real assets	102,647,718			
Total investments measured at the NAV	471,538,434			
Total investments measured at fair value	782,163,566			
Cash equivalents and short term investments at the amortized cost				
Short term securities	26,294,158			
Total investments measured at amortized costs	26,294,158			
Total investments	\$ 808,457,724			

CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2016

Investments and Derivative Instruments measured at Fair Value - OPEB

		Fair Value Measurements Using			
		Fair Value at 6/30/2016	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments by fair value level					
Equity securities:					
Consumer goods	\$	2,272,526	\$ 2,272,526	\$ -	\$ -
Energy		621,973	621,973	-	-
Financials		1,725,499	1,725,499	-	-
Health care		1,128,413	1,128,413	-	-
Industrials		861,959	861,959	-	-
Information technology		1,843,027	1,843,027	-	-
Materials		244,663	244,663	-	-
Mutual funds		15,999,889	12,209,274	3,790,615	-
Telecommunication services		242,383	242,383	-	-
Utilities		290,216	290,216	-	-
Total equity securities		25,230,548	21,439,933	3,790,615	-
Total investments at fair value	\$	25,230,548	\$ 21,439,933	\$ 3,790,615	\$ -
Cash equivalents and short term investments measured at amortized cost					
Short-term securities:	\$	183,625			
Total investments measured at amortized cost		183,625			
Total investments	\$	25,414,173			

Debt and equity securities classified as Level 1 fair value are valued using prices quoted in active markets for those securities. Debt securities classified as Level 2 fair value are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Mortgage pass-through securities classified in Level 3 are valued using discounted cash flow techniques. Collateralized mortgage obligations classified in Level 3 are valued using consensus pricing.

Private equity funds – international are valued as described in the following schedule, Note 2.

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CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2016

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table.

Investments measured at the NAV - Pension

	Fair Value at 6/30/2016	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equity investments:				
Co-mingled international equity fund ⁽¹⁾	\$ 243,505,012	\$ -	Daily, Monthly	3-30 days
Co-mingled small cap equity fund ⁽¹⁾	104,933,613	-	Daily, Monthly	3-30 days
Total equity investments	<u>348,438,625</u>	<u>-</u>		
Private equity - private equity partnerships ⁽²⁾	20,452,091	40,551,678	Not eligible	N/A
Real assets:				
Real estate ⁽³⁾	38,892,695	-	Not eligible	N/A
Timber ⁽³⁾	63,755,023	-	Not eligible	N/A
Total real assets	<u>102,647,718</u>	<u>-</u>		
Total investments measured at the NAV	<u>\$ 471,538,434</u>	<u>\$ 40,551,678</u>		

1. *Co-Mingled International Equity Fund and Co-Mingled Small Cap Fund.* This type consists of eight investment funds that invest in international equities diversified across all sectors and two funds that invest in small cap equities. The fair values of the investments in these types have been determined using the NAV per share of the investments.
2. *Private equity funds.* This asset class includes three commingled vehicles that take private ownership of companies. These investments have an eight-to-ten year time horizon and cannot be redeemed at NNERF's discretion during that period. Distributions from each of these assets will be delivered to NNERF periodically as revenue is generated and/or the underlying investments of the funds are sold. It is probable that the investments of this type will be sold at NAV.
3. *Real estate and Timber funds.* Real estate funds include two commingled real estate funds that invest primarily in U.S. commercial real estate. *Timber funds* include one commingled fund and one separate account managed by NNERF Timberland, LLC, a related party of the Fund, which invests in timber-related resources. The fair value of investments of this type are determined by an appraisal process using independent appraisers, using NAV per share (or its equivalent) of NNERF's ownership interest in partners' capital. The NAV is based on the fair value of the underlying assets, determined by an appraisal process using independent appraisers. These investments have an inherent time-horizon, and cannot be redeemed at NNERF's discretion during that period. Distributions from each of these assets will be delivered to NNERF periodically as revenue is generated and/or the underlying investments of the funds are sold.

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

CITY OF NEWPORT NEWS, VIRGINIA
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June 30, 2016

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, 2016, is as follows:

<u>Investment Types</u>	<u>S & P's Ratings as of June 30, 2016</u>						
	<u>TOTAL</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>B</u>	<u>Not Rated</u>
Asset-backed	\$ 10,133,205	\$ 5,103,616	\$ -	\$ -	\$ -	\$ -	\$ 5,029,589
Corporate Bonds	60,867,845	382,279	12,269,964	33,492,342	14,723,260	-	-
Foreign Currency	5,596,508	-	-	-	-	-	5,596,508
Lmt'd Partnership Units	23,391,393	-	-	-	-	-	23,391,393
Mortgage-backed	15,787,363	2,640,684	-	-	-	-	13,146,679
Mutual Funds	226,022,689	-	-	-	-	-	226,022,689
Real Estate	19,138,561	-	-	-	-	319,564	18,818,997
Short-term	20,879,385	-	-	-	-	-	20,879,385
U.S. Agencies	14,794,479	-	14,794,479	-	-	-	-
U.S. Treasury	9,545,914	-	-	-	-	-	9,545,914
Non-fixed Assets	402,300,382	-	-	-	-	-	402,300,382
Total	<u>\$ 808,457,724</u>	<u>\$ 8,126,579</u>	<u>\$ 27,064,443</u>	<u>\$ 33,492,342</u>	<u>\$ 14,723,260</u>	<u>\$ 319,564</u>	<u>\$ 724,731,536</u>

Concentration of Credit Risk – Pension Fund

The policy for the Fund has a strict control on credit quality by requiring that only bonds with a credit rating of A- or better may be considered for investment by the Fund's investment managers.

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

Custodial Risk – Pension and OPEB Funds

The policy requires that all securities purchased for the Plans 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 and OPEB Funds

The Plans do not have a formal policy to limit foreign currency risk. Risk of loss arises from changes in currency exchange rates. The Pension Fund's exposure to foreign currency risk is none to minimal. The OPEB Fund currently has no exposure to foreign currency risk.

Interest Risk – Pension Fund

The Plan'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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

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 Plan's fixed income portfolio consisted of the following investment and maturities as of June 30, 2016:

Investment Type	Fair Value	<5 years	5-10	15-20	>20 years
US Government	\$ 24,340,394	\$ 24,157,106	\$ -	\$ 183,288	\$ -
Corporate Bonds	60,867,850	60,446,347	190,933	-	230,570
Mortgage	25,920,562	25,641,700	228,513	-	50,349
Total	<u>\$ 111,128,806</u>	<u>\$ 110,245,153</u>	<u>\$ 419,446</u>	<u>\$ 183,288</u>	<u>\$ 280,919</u>

(3) Accounts Receivable

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

	Governmental activities	Business-type activities
Taxes receivable:		
Real Estate	\$ 8,603,562	-
Personal Property	6,920,853	-
Total taxes receivable, net	<u>15,524,415</u>	<u>-</u>
Accounts receivable	10,170,389	13,446,568
Total receivables, net	<u>\$ 25,694,804</u>	<u>13,446,568</u>

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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

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

	<u>General</u>	<u>Public Utility</u>	<u>Fiduciary Funds</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:					
Taxes	\$ 21,279,386	-	-	-	21,279,386
Accounts	6,484,879	15,011,051	4,985,084	5,443,684	31,924,698
Intergovernmental:					
Federal	1,941,028	-	-	2,597,832	4,538,860
State	13,161,242	-	-	4,024,407	17,185,649
Local	-	-	-	598,364	598,364
Gross receivables	42,866,535	15,011,051	4,985,084	12,664,287	75,526,957
Less allowance for doubtful accounts	(5,754,971)	(1,564,483)	-	(1,883,345)	(9,202,799)
Net total receivables	\$ 37,111,564	13,446,568	4,985,084	10,780,942	66,324,158

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 \$0.6 million was reported in the governmental nonmajor funds related to stormwater fees. The General Fund had unavailable revenues of \$11.9 million related to property taxes.

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Notes to Basic Financial Statements

June 30, 2016

(4) Capital Assets, Net

Capital asset activity for the year ended June 30, 2016 was as follows:

Primary Government

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 88,823,815	212,823	391,620	88,645,018
Construction in progress	71,944,449	43,962,802	33,019,437	82,887,814
Total capital assets, not being depreciated	160,768,264	44,175,625	33,411,057	171,532,832
Capital assets, being depreciated:				
Buildings	353,555,374	8,966,807	8,760,649	353,761,532
Improvements	202,817,899	8,929,968	427,100	211,320,767
Machinery and equipment	151,541,310	11,683,414	3,406,662	159,818,062
Infrastructure	508,098,130	23,913,909	-	532,012,039
Total capital assets being depreciated	1,216,012,713	53,494,098	12,594,411	1,256,912,400
Less accumulated depreciation for:				
Buildings	124,222,384	6,694,238	3,867,142	127,049,480
Improvements	98,562,471	6,716,814	111,046	105,168,239
Machinery and equipment	105,348,681	10,015,895	2,944,012	112,420,564
Infrastructure	337,736,124	9,168,356	-	346,904,480
Total accumulated depreciation	665,869,660	32,595,303	6,922,200	691,542,763
Total capital assets being depreciated, net	550,143,053	20,898,795	5,672,211	565,369,637
Capital assets, net	\$ 710,911,317	65,074,420	39,083,268	736,902,469

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

General Government	\$ 1,863,552
Judicial Administration	599,780
Public Safety	4,756,538
Public Works	10,712,815
Health and Welfare	168,717
Education	5,184,560
Parks, Recreation and Culture	4,080,760
Community Development	587,451
Non-departmental	8,219
Internal Service Fund	4,632,911
	<u>\$ 32,595,303</u>

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

Construction in progress for the City at June 30, 2016 is composed of the following project authorizations and contract commitments (in millions):

	Project Authorization	Expended as of June 30, 2016	Balance of Authorization	Contract Commitments (Encumbrances)	Future Funding Requirements
General Government	\$ 9.3	3.7	5.6	1.1	3.5
Health & Welfare	2.1	0.9	1.2	0.1	-
Public Safety	14.9	14.0	0.9	1.1	1.2
Public Works	92.6	20.3	72.3	23.6	20.9
Parks and Recreation	6.6	4.6	2.0	0.5	1.9
Economic Development	21.1	13.5	7.6	1.8	21.0
and Urban Renewal					
Public Schools	12.7	2.0	10.7	5.5	7.2
Totals	<u>\$ 159.3</u>	<u>59.0</u>	<u>100.3</u>	<u>33.7</u>	<u>55.7</u>

Business-type Activities:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Public Utility:				
Capital assets, not being depreciated:				
Land	\$ 7,976,985	-	-	7,976,985
Construction in progress	26,434,865	17,597,943	6,390,735	37,642,073
Total capital assets, not being depreciated	<u>34,411,850</u>	<u>17,597,943</u>	<u>6,390,735</u>	<u>45,619,058</u>
Capital assets, being depreciated:				
Buildings	152,155,622	-	-	152,155,622
Improvements	412,957,264	11,572,113	392,018	424,137,359
Machinery and equipment	34,319,010	1,365,119	723,242	34,960,887
Total capital assets being depreciated	<u>599,431,896</u>	<u>12,937,232</u>	<u>1,115,260</u>	<u>611,253,868</u>
Less accumulated depreciation for:				
Buildings	53,222,774	3,648,465	-	56,871,239
Improvements	171,952,736	7,418,093	269,564	179,101,265
Machinery and equipment	26,200,547	2,742,681	714,945	28,228,283
Total accumulated depreciation	<u>251,376,057</u>	<u>13,809,239</u>	<u>984,509</u>	<u>264,200,787</u>
Total capital assets being depreciated, net	<u>348,055,839</u>	<u>(872,007)</u>	<u>130,751</u>	<u>347,053,081</u>
Capital assets, net	<u>\$ 382,467,689</u>	<u>16,725,936</u>	<u>6,521,486</u>	<u>392,672,139</u>

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

Discretely Presented Component Units

	Balance			Adjustment Assets Held Tenancy	Balance
	July 1, 2015	Increases	Decreases	In-Common	June 30, 2016
Public Schools:					
Capital assets, not being depreciated:					
Land	\$ 2,505,084	-	-	391,620	2,896,704
Construction in progress	3,219,584	13,007,480	2,043,000	-	14,184,064
Total capital assets, not being depreciated	5,724,668	13,007,480	2,043,000	391,620	17,080,768
Capital assets, being depreciated:					
Buildings	50,625,313	-	-	8,760,649	59,385,962
Improvements	53,192,358	2,568,001	-	427,100	56,187,459
Machinery and equipment	64,603,595	4,084,310	2,649,519	-	66,038,386
Total capital assets being depreciated	168,421,266	6,652,311	2,649,519	9,187,749	181,611,807
Less accumulated depreciation for:					
Buildings	31,206,957	3,734,122	-	3,867,142	38,808,221
Improvements	22,400,959	1,904,842	-	111,046	24,416,847
Machinery and equipment	45,607,721	4,201,869	2,608,504	-	47,201,086
Total accumulated depreciation	99,215,637	9,840,833	2,608,504	3,978,188	110,426,154
Total capital assets being depreciated, net	69,205,629	(3,188,522)	41,015	5,209,561	71,185,653
Capital assets, net	\$ 74,930,297	9,818,958	2,084,015	5,601,181	88,266,421

An adjustment to buildings for Assets Held Tenancy in-Common is recorded for a school building held on the books of the City until the bonded debt was repaid. This is permitted per the laws of the Commonwealth of Virginia. Once the debt is repaid, an accounting entry is made to move the building back to the School Board. All the while the School Board holds the deed to the property, retains full control, and operates all programs at the property and insures the property.

Depreciation expense of \$9,840,833 was charged to the Public School's governmental functions.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

(5) Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2016, is as follows:

Receivables/payables between other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Gov. Fund: Comp. Services Act	\$ 340,110
General Fund	Nonmajor Gov. Fund: Animal Shelter	222,572
General Fund	Nonmajor Gov. Fund: Police Grants	434,128
General Fund	Nonmajor Gov. Fund: Safer Grant	108,867
General Fund	Nonmajor Gov. Fund: Comm. Atty Grants	17,849
Nonmajor Gov. Fund: Gen. Cap. Imp. Fund	Nonmajor Gov. Fund: Capital Project Grants	2,970,128

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>
General Fund	Pension Fund	\$3,029,750
General Fund	OPEB Fund	922,210

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	5,503,971

The IDA Payable represents the outstanding balance of the City's financing of the construction of the Applied Research Center (ARC). The repayment of this debt includes interest at 2.79%. The payment is in annual principal and interest payments representing the net revenues of the ARC after operating expenses, building reserves and short-term debt repayment. In 2016, the IDA paid interest only on the outstanding debt; therefore, at June 30, 2016 the outstanding balance was \$10,156,140.

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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

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

	Transfers to:				
	General Fund	Debt Service	Nonmajor Governmental Capital Projects	Nonmajor Governmental Special Revenue	Total
Transfers from:					
General Fund	\$ -	33,922,260	12,073,710	2,652,344	48,648,314
Nonmajor Gov. -					
Special Revenue	-	12,254,592	-	-	12,254,592
Public Utility	9,500,000	-	-	-	9,500,000
	<u>\$ 9,500,000</u>	<u>46,176,852</u>	<u>12,073,710</u>	<u>2,652,344</u>	<u>70,402,906</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, 2016 were as follows:

Years ending June 30:	
2017	\$ 270,811
2018	<u>270,811</u>
Total	\$ 541,622
Less Interest	<u>32,433</u>
Present Value	<u>\$ 509,189</u>

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

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

The School Board has two lease agreements at June 30, 2016 for financing the acquisition of property and equipment.

The net book value of assets acquired through the two capital leases as of June 30, 2016 is as follows:

Machinery and equipment	\$ 1,736,244
Less accumulated depreciation	(1,083,603)
Assets acquired through capital leases, net	<u>\$ 652,641</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2016, were as follows:

Years ending June 30:

2017	\$ 387,179
2018	189,131
2019	149,521
2020	37,380
Total minimum lease payments	<u>\$ 763,211</u>
Less amounts representing interest	(43,813)
Present value of minimum capital lease payments	<u>\$ 719,398</u>

(c) Operating Lease Payments – Component Units

The School Board had three ongoing leased buildings in 2016. 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, 2016 but, in September 2016, the School Board exercised its option to renew for one additional year. The School Board also leased space for high school graduation ceremonies on a year-to-year basis. Total costs for such leases were approximately \$708,720 for the year ended June 30, 2016.

The E/IDA leases land and property in Newport News. Original lease terms range from one to twenty years.

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.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

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:			
2017	\$ 733,645	1,040,589	12,288
2018	694,136	1,009,833	8,192
2019	653,839	1,011,817	-
2020	658,673	1,013,855	-
2021	663,606	1,015,947	-
2022-2026	3,591,104	4,585,550	-
2027-2030	2,063,054	75,833	-
	<u>\$ 9,058,057</u>	<u>9,753,424</u>	<u>20,480</u>

(7) Long-Term Liabilities

- (a) A summary of changes in long-term liabilities for governmental activities for the year ended June 30, 2016 is as follows:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2016</u>	<u>Due within one year</u>
Bonds payable:					
General obligation bonds	\$ 345,514,154	82,080,000	(72,570,675)	355,023,479	39,791,758
Deferred amounts:					
Add bonds premiums	28,408,457	11,320,050	(5,733,794)	33,994,713	4,504,333
Total bonds payable	<u>373,922,611</u>	<u>93,400,050</u>	<u>(78,304,469)</u>	<u>389,018,192</u>	<u>44,296,091</u>
Literary loan bonds	5,038,355	—	(419,767)	4,618,588	419,767
Capital leases payable	433,747	—	(113,329)	320,418	109,617
Land lease payable	741,819	—	(232,630)	509,189	246,978
Landfill liability	4,378,000	—	(274,000)	4,104,000	289,000
Accrued vacation	18,706,630	15,176,867	(14,617,785)	19,265,712	15,054,946
Net line of duty obligation	2,672,719	1,172,492	(2,922,719)	922,492	—
Net pension liability	246,591,523	60,077,444	(26,658,761)	280,010,206	—
Net OPEB obligation	31,577,138	11,904,507	(8,895,444)	34,586,201	—
Workers' comp. and other claims	13,154,483	5,303,250	(4,689,004)	13,768,729	4,110,688
Incurred but not reported medical claims	3,536,469	40,354,474	(40,627,943)	3,263,000	3,263,000
Total long-term liabilities	<u>\$ 700,753,494</u>	<u>227,389,084</u>	<u>(177,755,851)</u>	<u>750,386,727</u>	<u>67,790,087</u>

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

General obligation bonds of \$64.0 million are authorized but unissued.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

On December 17, 2015, the City issued \$48,890,000 principal amount of General Obligation General Improvement Bonds Series 2015 with a true interest cost of 2.578%. The net proceeds of \$53,308,406 (after an original issue premium of \$4,591,714 and payment of \$173,308 for underwriting fees and other issuance costs) were used to finance the costs of various capital improvement projects.

On June 21, 2016, the City issued \$33,190,000 principal amount of General Obligation Refunding Bonds Series 2016A with a true interest cost of 2.014%. The proceeds of the sale, exclusive of the accrued interest and costs of issuance, were applied to the refunding of \$15,790,000 outstanding principal amount of the City's 2009A Series, \$16,800,000 outstanding principal amount of the City's 2011A Series, and \$2,400,000 outstanding principal amount of the City's 2012C Series with average interest rates of 4%, 4.2%, and 5% respectively. The net proceeds of \$39,613,981 (after an original premium of \$6,728,336 and payment of \$301,127 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 June 21, 2016 (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 \$2,706,130. 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 \$2,447,480.

At June 30, 2016, approximately \$133.2 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 4.1 million liability at June 30, 2016 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 2016. 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, 2016

Outstanding general obligation bonds at June 30, 2016, of the Primary Government governmental activities, are comprised of the following issues:

G.O. Bond Series	Bond Date	Final Maturity Date	Effective Interest Rate (At Issue)	Balance June 30, 2016
VRA 96C	01/24/96	10/01/16	3.65%	\$ 102,868
VRA 97A	01/30/97	10/01/17	3.70%	292,041
VRA 98A	01/22/98	12/01/17	3.70%	235,094
VRA 99A	03/09/99	12/01/19	3.80%	627,766
VRA 00A	03/01/00	03/01/21	3.50%	887,767
VPSA 00B	11/16/00	07/15/21	5.15%	1,741,482
VRA 01A	04/24/01	05/01/22	4.10%	801,741
VRA 02A	05/15/02	01/01/23	3.75%	1,183,387
Series 02B	09/26/02	07/01/16	3.40%	4,015,000
VRA 03A	06/24/03	06/01/24	3.50%	1,496,600
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
VRA 04A	06/30/04	09/01/25	3.10%	1,632,616
VRA 05A	08/24/05	09/01/26	3.50%	2,049,359
Series 06B	02/16/06	02/01/19	4.00%	9,425,000
VRA 06A	10/20/06	11/01/27	3.10%	1,808,068
Series 07A	04/05/07	03/01/27	4.10%	2,000,000
Series 07B	04/05/07	07/01/22	5.00%	20,215,000
VRA 07A	09/11/07	09/01/28	3.00%	2,192,004
Series 08A	04/09/08	07/28/28	4.00%	3,710,000
VRA 08	12/12/08	09/01/29	3.50%	2,281,944
Series 09A	05/06/09	06/30/30	3.44%	6,320,000
Series 09B	05/06/09	06/30/20	2.23%	5,110,000
VRA 09	12/16/09	09/01/30	3.35%	3,938,248
Series 11A	07/28/11	07/01/31	3.31%	10,500,000
Series 11B	07/28/11	07/01/19	1.97%	8,165,000
Series 12A	03/21/12	07/15/24	1.93%	37,715,000
Series 12B	03/21/12	07/15/19	1.41%	11,100,000
Series 12C	09/27/12	09/01/32	2.58%	33,600,000
Series 12D	09/27/12	09/01/21	1.77%	3,050,000
Series 14A	05/22/14	07/15/34	3.05%	42,750,000
Series 14A-Ref	05/22/14	07/15/27	2.43%	45,870,000
Series 14B	05/22/14	01/15/25	3.08%	5,685,000
Series 15	12/17/15	07/15/35	2.58%	48,890,000
Series 16A	06/21/16	08/01/31	2.01%	33,190,000
Totals				<u><u>\$ 355,023,479</u></u>

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

Outstanding literary loans at June 30, 2016, 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, 2016
Warwick High	09/01/99	09/01/19	2%	\$ 36,800
Menchville High-2	10/01/00	10/01/20	2%	62,500
Denbigh High-2	08/01/01	08/01/21	2%	73,596
Gildersleeve Middle-2	08/15/01	08/15/21	2%	37,500
Dozier Middle	08/15/01	08/15/21	2%	37,500
Reservoir Middle	05/01/02	05/01/22	2%	37,500
Hines Middle	05/01/02	05/01/22	2%	37,500
Huntington Middle-2	09/01/02	09/01/22	2%	47,483
General Stanford	06/30/07	07/15/27	2%	4,248,209
Totals				\$ <u>4,618,588</u>

The following table summarizes future debt service requirements as of June 30, 2016:

Fiscal year ending June 30:	General Obligation Bonds		Literary Loans	
	Principal	Interest	Principal	Interest
2017	\$ 39,791,758	13,504,839	\$ 419,767	92,372
2018	33,396,424	12,420,891	419,767	83,977
2019	31,014,923	11,132,683	419,767	75,580
2020	27,361,744	9,972,292	419,767	67,186
2021	26,277,846	8,853,066	410,567	58,791
2022 - 2026	109,917,438	28,896,447	1,820,924	178,160
2027 - 2031	59,253,346	10,987,814	708,029	21,241
2032 - 2036	28,010,000	2,072,175	-	-
Total future debt service	\$ <u>355,023,479</u>	<u>97,840,207</u>	\$ <u>4,618,588</u>	<u>577,307</u>

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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

Business-type Activities

A summary of changes in long-term liabilities for capital-related, business-type activities for the year ended June 30, 2016 is as follows:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2016</u>	<u>Due within one year</u>
Bonds payable:					
General obligation bonds \$	86,015,000	—	(12,615,000)	73,400,000	12,975,000
Revenue bonds	35,017,500	28,185,000	(34,028,750)	29,173,750	988,750
Deferred amounts:				—	
Add bond premiums	6,010,001	6,239,273	(1,314,734)	10,934,540	1,181,902
Total bonds payable \$	<u>127,042,501</u>	<u>34,424,273</u>	<u>(47,958,484)</u>	<u>113,508,290</u>	<u>15,145,652</u>
Net Pension liability	27,105,175	11,065,137	(3,318,149)	34,852,163	—
Deposits	3,612,456	1,643,443	(1,431,423)	3,824,476	—
Total long-term liabilities \$	<u>157,760,132</u>	<u>47,132,853</u>	<u>(52,708,056)</u>	<u>152,184,929</u>	<u>15,145,652</u>

On June 2, 2016, Public Utilities issued \$28,185,000 principal amount of Revenue Refunding Bonds Series 2016A with a true interest cost of 2.7%. The proceeds of the sale, exclusive of the accrued interest and costs of issuance, were applied to the refunding of \$33,065,000 outstanding principal amount of Public Utilities' 2007A Revenue Water Bond with an average interest rate of 4.6% respectively. The net proceeds of \$34,420,354 (after an original premium of \$6,239,273 and payment of \$340,014 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 June 2, 2016 (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 Waterworks Department is undertaking the refunding of such outstanding revenue bonds described above in order to reduce its annual debt service expenditures. Due to the refunding, overall aggregate debt service payments were reduced by \$8,602,594. 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 \$6,589,885.

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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

Outstanding public utility bonds at June 30, 2016 are comprised of the following issues:

Public Utility Bond Series	Issue Date	Final Maturity Date	Interest Rate (At Issue)	Balance June 30, 2016
2002B	09/26/02	07/01/16	3.8%	695,000
2006B	02/15/06	02/01/19	4.3%	5,815,000
2007B	04/05/07	07/01/22	5.1%	17,950,000
2007A-IRB	06/30/07	06/01/17	4.6%	988,750
2008B	04/09/08	06/30/28	4.5%	2,305,000
2009B	05/06/09	09/01/29	4.3%	9,505,000
2012A	03/21/12	07/15/24	1.9%	7,575,000
2012B	03/21/12	07/15/19	1.4%	12,220,000
2014A	05/22/14	07/15/27	2.5%	17,335,000
2016A-IRB	06/02/16	06/30/37	2.7%	28,185,000
Totals				\$ 102,573,750

The following table summarizes future debt service requirements of Business-type Activities as of June 30, 2016:

Fiscal year ending June 30:	Business-type Activities	
	Principal	Interest
2017	\$ 13,963,750	3,767,385
2018	11,315,000	3,812,757
2019	11,685,000	3,350,287
2020	9,995,000	2,895,809
2021	7,610,000	2,531,944
2022-2026	25,825,000	8,143,825
2027-2031	10,755,000	3,966,825
2032-2036	9,280,000	1,742,750
3037	2,145,000	53,625
Totals	\$ 102,573,750	30,265,207

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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

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, 2016 is as follows:

	Balance			Balance	Due within
	July 1, 2015	Additions	Reductions	June 30, 2016	one year
Compensated absences	\$ 4,463,225	2,553,166	(2,328,341)	4,688,050	703,208
Workers' compensation claims	4,757,302	1,692,550	(1,554,082)	4,895,770	979,154
Capital leases payable	1,065,719	-	(346,321)	719,398	361,700
Capital facility notes payable	-	11,144,414	-	11,144,414	-
Other postemployment benefits	28,295,945	7,365,074	(7,781,323)	27,879,696	-
Incurred but not reported medical claims	2,661,000	27,402,785	(27,236,785)	2,827,000	2,827,000
VRS teacher pool net pension liability	250,088,000	59,474,000	(49,024,000)	260,538,000	-
NNERF net pension liability	81,092,361	5,998,822	(6,843,256)	80,247,927	-
Totals	\$ 372,423,552	115,630,811	(95,114,108)	392,940,255	4,871,062

The capital facility notes payable provided financing for energy performance contract improvements. The project was still in progress at June 30, 2016. The amount shown as a liability at June 30, 2016 of \$11,144,414 will reach \$15,222,827 by June 30, 2017 (see note 15).

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.

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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

Bonds and Notes have no recourse against the E/IDA, but must look to the property and lessee for indemnity. In 2016, approximately \$15.1 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, 2016 are comprised of the following:

	Issue date	Maturity date	Effective interest rates		Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Amount due within one year
Bonds payable:									
Sears	03/01/98	10/01/18	5.40% mm	\$	3,406,011	\$ -	\$ (984,176)	\$ 2,421,835	\$ 1,039,867
VSS	03/01/98	10/01/18	5.40% mm		3,091,617	-	(893,341)	2,198,276	943,891
Downtown Eng	04/05/00	07/01/31	7.64%		15,780,000	-	(1,060,000)	14,720,000	1,020,000
Merchant's Walk	12/21/10	12/01/20	2.70% a		5,364,000	-	(894,000)	4,470,000	894,000
PrintPack	08/15/03	09/01/18	2.93% v		1,140,000	-	(1,140,000)	-	-
Fountain Way	12/07/04	07/01/31	4.75% a		1,340,000	-	(670,000)	670,000	670,000
Hotel Promissory	12/07/04	07/01/31	4.75% a		410,000	-	(205,000)	205,000	205,000
Rouse Project	12/29/05	01/15/31	5.14% a		360,000	-	(360,000)	-	-
Mariner's Row	12/29/05	01/15/31	5.14% a		840,000	-	(840,000)	-	-
Conference Ctr	06/30/06	07/01/31	4.00% a		6,895,000	-	(5,785,000)	1,110,000	1,110,000
CITI A '07	02/26/07	08/01/22	1.41% v		2,129,900	-	(240,905)	1,888,995	314,151
CITI B '07	02/26/07	08/01/22	1.96% v		443,173	-	(52,285)	390,888	55,392
Series 2012A	10/12/12	07/01/30	4.00% a		25,390,000	-	-	25,390,000	-
Series 2012B	10/12/12	07/01/31	0.76% a		25,950,000	-	(340,000)	25,610,000	1,830,000
A-School Garage	07/23/15	09/01/27	3.80%		12,700,000	-	(976,924)	11,723,076	976,924
Series 2015	07/23/15	09/01/27	3.48%		-	4,575,000	-	4,575,000	-
Totals					105,239,701	4,575,000	(14,441,631)	95,373,070	9,059,225
Premium on bonds payable					3,719,524	309,329	(401,789)	3,627,064	376,120
Discount on bonds payable					(2,458)	-	1,843	(615)	(615)
Add interest rate swap fair value					1,236,300	-	(1,145,989)	90,311	90,311
Total bonds payable, net					\$ 110,193,067	4,884,329	(15,987,566)	99,089,830	\$ 9,525,041
Notes payable:									
809 Omni Blvd	08/13/07	07/01/17	1.30% v		1,500,000	-	-	1,500,000	1,500,000
Total bonds and notes payable					\$ 111,693,067	\$ 4,884,329	\$ (15,987,566)	\$ 100,589,830	\$ 11,025,041

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

a denotes payment agreement with the City

v denotes variable rate bonds

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

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, 2016 and June 30, 2015, there were ten and eight, respectively, of the Bonds outstanding with an aggregate principal amount payable of approximately \$368 and \$251 million, respectively.

Interest Rate Swap Agreement: Interest rate swaps are derivative instruments associated with hedging interest expense that is determined to be effective in reducing exposures to identified financial risks. Effectiveness is determined by considering whether the changes in cash flows or fair values of the interest rate swap substantially offset the changes in cash flows or fair values of the bond interest expense. In these instances, hedge accounting should be applied. Under hedge accounting, the changes in fair values of the interest rate swap are reported as either deferred inflows or deferred outflows in the Statement of Net Position. During 2015, the 2007A and 2007B swaps were terminated without penalty and reverted to a variable rate of 30-day LIBOR plus .95% and 65% or LIBOR plus 1.66% respectively. In addition, the 2004 debt was paid off at June 30, 2015, leaving only the 2000A and 2000B swaps remaining. Both the 2000A and 2000B interest rate swaps mature on July 1, 2016. A fixed rate credit facility has been negotiated with Wells Fargo Bank for the 2000A Bond with closing scheduled for July 1, 2016. The 2000B bond swap will revert to a variable rate on the date of the swap maturity. As of June 30, 2016 and 2015, management has determined that the remaining interest rate swaps are effective.

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's variable interest rate on the bonds to a synthetic fixed rate. Following is a summary of significant information pertaining to each swap:

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

	2000A	2000B	2004
Original notional value	\$ 5,000,000	\$ 25,000,000	\$ 8,046,249
Notional value at 6/30/16	2,640,000	12,708,353	-
Effective Date	6/1/2001	6/1/2001	5/1/2004
Termination (maturity) date	7/1/2016	7/1/2016	7/1/2015
Bond maturity date	7/1/2031	7/1/2031	7/1/2015
Fixed rate	7.64%	7.64%	5.58%
Floating leg			
	Libor Weekly index	Libor Weekly index	Libor Weekly index
Floating rate at 6/30/16	0.50%	0.44%	1.13%
Fair value at 6/30/16	\$ (15,450)	\$ (74,861)	\$ -

Under the swaps, the E/IDA pay the counterparty the above fixed rate and receive a variable rate payment based on LIBOR indexes. The Series 2000A and Series 2000B variable 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 at the Determinate Date, would be necessary to enable the Remarketing Agent to arrange for the sale of all the Bonds in the secondary market on the Determination Date, at a price equal to the principal amount thereof. A weighted average of the weekly rates is calculated to determine the variable rate for a specific month. The Series 2004 variable rate is calculated using the prevailing weekly LIBOR rate plus 0.95%. The Series 2004 debt was paid off on June 30, 2015. In all three instances, the bonds' variable rate coupons are based on the same index as the variable rate paid by the counterparty.

Because interest rates have declined since the execution of the swaps, the swaps had a combined negative fair value of \$90,311 as of June 30, 2016 and \$1,236,300 as of June 30, 2015. If the Series 2000A or 2000B interest rate 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. This fair value estimate is based on expected forward LIBOR swap rates and discounted expected cash flows and is derived from independent market valuations.

As of June 30, 2016, the E/IDA was not exposed to credit risk because the swaps had a negative value. However, should interest rates change and the fair value of the swaps become positive, the E/IDA would be exposed to credit risk in the amount of the derivative's fair value.

Basis risk arises when the variable rate on the interest rate swap and rate on the bonds are based on different indexes. In all three swaps held by the E/IDA, the coupon rate of the bonds and the interest rate on the swap are based on the same index; therefore, the E/IDA are not exposed to any basis risk.

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The E/IDA have implemented a strategy on the swaps designed to provide a synthetic fixed rate and it is not anticipated that, as a result of the strategy, the E/IDA have assumed any additional interest rate risk.

The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. If a swap were terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the E/IDA would be liable to the counterparty for payment equal to the swap's fair value.

The E/IDA are exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated debt. When these swaps terminate, the E/IDA will no longer realize the synthetic rate offered by the swaps on the underlying debt issue.

The PAC Airport Improvement Revenue Bonds at June 30, 2016, are comprised of the following:

Series	Issue Date	Maturity Date	Eff. Int. Rate (%)	Balance July 1, 2015	Reductions	Balance June 30, 2016	Amt Due in one year
2002	07/03/02	07/01/27	4.5	\$ 1,536,725	108,252	1,428,473	113,786
2005A	12/15/05	01/15/32	4.3	5,396,467	229,505	5,166,962	238,998
2005B	12/15/05	01/15/32	5.8	2,412,734	89,756	2,322,978	94,812
Totals				\$ 9,345,926	427,513	8,918,413	447,596

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:				
2017	\$ 10,559,225	3,026,695	447,596	389,252
2018	9,001,528	2,696,540	466,904	369,944
2019	7,642,820	2,440,914	487,098	349,750
2020	9,122,407	2,203,582	508,221	328,627
2021	7,118,909	1,999,520	530,316	306,532
2022-2026	28,659,333	7,346,387	3,020,519	1,163,721
2027-2031	22,988,848	2,570,827	3,094,511	470,501
2032	1,780,000	34,722	363,248	6,320
Total	\$ 96,873,070	22,319,187	8,918,413	3,384,647

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(8) Defined Benefit Retirement Plan

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

Plan description:

The Plan is a single-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 personnel employed by Schools, the Plan provides a small supplement to the Virginia Retirement System (VRS) retirement plan. The Plan has been closed to new entrants since 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 and are reported as fiduciary trust funds. The nine voting members of the Retirement Board oversee the operation of the Pension and OPEB Funds. The City issues a publicly available set of financial statements and required information for the Plan. A copy may be obtained from the Web at <http://www.nnva.gov/580/Retirement>.

Benefits Provided:

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. For the years ended June 30, 2016 and June 2015, the total payroll of the City and Schools was approximately \$362.5 million and \$353.0 million, respectively, with approximately \$113.3 million and \$118.6 million paid to employees covered by the Pension Fund. The decrease in covered payroll from 2015 is the result of employees retiring or leaving employment.

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

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compensation paid during the member's 36 highest paid consecutive months of credited service. Employees with 30 years credited service (25 for police officers, firefighters and deputy sheriffs) 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. 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 contribute 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 Trustees the contributions necessary to fund the Plan benefits.

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

Employees covered by Benefit Terms:

At June 30, 2016, membership in the Plan consisted of:

	Retirees and Beneficiaries	Vested Terminated Employees	Active Employees Vested	Total
City general	1,265	793	924	2,982
City police and fire	845	277	706	1,828
Public utilities	265	105	216	586
School VRS	2,578	3,349	-	5,927
School Non-VRS	842	263	526	1,631
Total	<u>5,795</u>	<u>4,787</u>	<u>2,372</u>	<u>12,954</u>

Contributions

Effective January 1, 2013, employee contributions to the Pension Fund were made mandatory. Contributions totaling \$39,005,899 and \$6,188,546 were made by employers and employees, respectively, to the Pension Fund during the year ended June 30, 2016. The percentage of contributions to covered payroll for fiscal year 2016 was 39.9% and 33.5% for fiscal year 2015. The percentage of normal costs to covered payroll was 7.98% for each fiscal year ending June 30, 2016 and June 30, 2015.

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Net Pension Liability

The City's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using an updated actuarial assumption, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

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

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry Age Normal
Amortization method	Closed
Remaining amortization period	25 years
Asset Valuation method	Five-Year smoothed market
Actuarial assumptions:	
Investment rate of return	7.50%
Rate of salary increases	For the City: 2.00% for the next three years 4.50% thereafter For the Non-VRS Schools: 3.00% for the next two years 2.00% for the third year 4.5% thereafter
Cost of living adjustment	1.33%
Inflation	2.80%
Rate of Mortality	RP-2000 male and female mortality tables

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June 30, 2016

Long-Term Expected Rate of Return

The long-term expected rate of return on NNERF investments was determined using best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation), developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
Large Cap Equities	6.2%	24.0%
Mid Cap Equities	9.3%	14.0%
Small Cap Equities	5.8%	12.0%
International Equities	3.0%	12.0%
Emerging Markets	4.9%	4.0%
Real Estate	7.2%	4.0%
Private Equities	11.6%	6.0%
Timberland	4.8%	8.0%
Fixed Income (Bonds)	2.7%	15.0%
Cash	0.0%	1.0%
Total		100.0%

Discount Rate and Sensitivity of the Net Pension Liability to Changes in the Discount

The discount rate used to measure the total pension liability was 7.50 percent. In developing the projection of cash flows used to determine the discount rate, the actuaries have assumed that the employer contributions will continue to follow the written contribution policy. The City's contribution rate is the sum of the normal cost rate plus amortization of the Plan's unfunded liability plus a provision for expenses. The normal cost rate is determined under the entry age actuarial cost method while the UAL rate is that necessary to pay down the UAL with a thirty year closed amortization with level dollar payments as of July 1, 2011. The actuaries also assume that member contributions will continue to be made at the rates specified in the Plan.

Based on these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current members until the last payment for the current covered population is made as of June 30, 2015 measurement

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date. Consequently, the single equivalent rate used to determine the total pension liability as of June 30, 2015 is 7.5%, the long-term expected rate-of-return as defined by GAAP as of that date.

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	\$ 1,387,019,248	\$ 1,245,750,531	\$ 1,126,982,872
Plan fiduciary net position	850,640,235	850,640,235	850,640,235
Net pension Liability	<u>\$ 536,379,013</u>	<u>\$ 395,110,296</u>	<u>\$ 276,342,637</u>
Plan fiduciary net position as a Percentage of the Total Pension Liability	61.3%	68.3%	75.5%

Detailed information about the pension plan is available in the separately issued NNERF financial report.

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June 30, 2016

Changes in the Net Pension Liability

The City's change in net pension liability of the Pension Fund for 2015 was as follows:

	Total Pension Liability	City's	Proprietary's	School's	Net Position Liability
	(a)	(b)	(b)	(b)	(a)-(b)
Balances at June 30, 2014	\$ 1,209,769,860	\$ 594,243,291	\$ 65,318,823	\$ 195,418,687	\$ 354,789,059
Changes for the year:					
Service cost	9,926,558	-	-	-	9,926,558
Interest	88,917,067	-	-	-	88,917,067
Differences between expect	6,665,024	-	-	-	6,665,024
Contributions - employer	-	23,569,764	2,933,669	6,754,842	(33,258,275)
Contributions - member	-	4,775,325	594,305	1,368,518	(6,738,148)
Net investment income	-	18,564,157	2,310,369	5,320,136	(26,194,662)
Benefit payments	(69,527,978)	(49,274,478)	(6,132,368)	(14,121,132)	-
Administrative expenses	-	(711,303)	(88,524)	(203,846)	1,003,673
Net changes	<u>35,980,671</u>	<u>(3,076,535)</u>	<u>(382,549)</u>	<u>(881,482)</u>	<u>40,321,237</u>
Balances at June 30, 2015	<u>\$ 1,245,750,531</u>	<u>591,166,756</u>	<u>64,936,274</u>	<u>194,537,205</u>	<u>395,110,296</u>

The following schedule includes the proportionate shares of employer contributions of net pension liability by Activities:

	June 30, 2015		
Activities	Contributions	Net Pension Liability	Proportionate Share
Governmental Activities	\$ 23,569,764	\$ 280,010,206	70.87%
Business - type Activities	2,933,669	34,852,163	8.82%
Component Unit - School Board	6,754,842	80,247,927	20.31%
Total	<u>\$ 33,258,275</u>	<u>\$ 395,110,296</u>	<u>100.00%</u>

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Notes to Basic Financial Statements
June 30, 2016

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016 the City recognized pension expense of \$29,535,920. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Governmental Activities</u>		<u>Business- type Activities</u>		<u>Total Activities</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflow of Resources</u>
Employer contributions subsequent to measurement date	\$ <u>28,166,706</u>	\$ <u>-</u>	\$ <u>3,150,717</u>	\$ <u>-</u>	\$ <u>31,317,423</u>	\$ <u>-</u>
Differences between expected and actual experience	\$ <u>5,091,053</u>	\$ <u>-</u>	\$ <u>2,655,255</u>	\$ <u>-</u>	\$ <u>7,746,308</u>	\$ <u>-</u>
Net difference between projected and actual earnings on pension plan investments	\$ <u>-</u>	\$ <u>3,088,997</u>	\$ <u>-</u>	\$ <u>384,480</u>	\$ <u>-</u>	\$ <u>3,473,477</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follow:

Year ended June 30:

2016	\$ 4,633,278
2017	(3,113,121)
2018	(3,113,121)
2019	<u>5,865,795</u>
	\$ <u>4,272,831</u>

Schedules of Employer Contributions, Changes in the City's Net Pension Liability and Related Ratios, and Schedule of City contributions are included in the Required Supplemental Information Section.

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Notes to Basic Financial Statements

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Payable to the Pension Plan

At June 30, 2016, the City did not have a payable to the pension plan.

(b) Virginia Retirement System:

Plan Description:

The City and PAC contribute to the VRS, an agent multiple-employer defined benefit pension plan administered by the VRS. Those hired between July 1, 2009 and June 30, 2010 are under the provisions of Plan 1 and those hired on or after July 1, 2010 are under the provisions of Plan 2, which plans are described below.

The Schools contribute to the VRS, which administers two plans – an agent multiple employer plan and a cost-sharing teachers multiple-employer defined benefit plan. VRS administers an agent multiple-employer defined benefit pension 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 Plan 1, those hired between July 1, 2010 and December 31, 2013 are under the provisions of Plan 2 and those hired on or after January 1, 2014 are under the provisions of the hybrid plan. The Schools information is not included in this report, but can be obtained from the School's Web site at <http://sbo.nn.k12.va.us/budget/CAFR.pdf>.

Benefits Provided:

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 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/2014-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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:

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About VRS Plan 1 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 Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	About VRS Plan 2 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 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.	About the Hybrid Retirement Plan 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 Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") <ul style="list-style-type: none">• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.• 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.• 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.
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<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election 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 Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Eligible Members Employees are in 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>Hybrid Opt-In Election 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 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 Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • Members in Plan 1 or 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</p> <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees</p> <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 Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions</p>	<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions</p>	<p>Retirement Contributions 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</p>

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<p>elected to phase in the required 5% member contribution but 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>elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p>	<p>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>Creditable Service 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 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>Creditable Service Same as Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</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 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><u>Defined Contributions Component:</u> Under the defined</p>

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		contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
<p>Vesting 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>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> 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. Plan 1 or 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><u>Defined Contributions Component:</u> 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. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution</p>

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		<p>component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit 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 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>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1.</p> <p><u>Defined Contribution Component:</u> 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>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to</p>	<p>Service Retirement Multiplier VRS: Same as VRS Plan1 for service earned, purchased or granted</p>	<p>Service Retirement Multiplier Defined Benefit Component VRS: The retirement multiplier is</p>

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<p>determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p>Sheriffs and regional jail superintendents: 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>Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p>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>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>for the defined benefit is 1.00%.</p> <p>For members that opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Not applicable.</p>
<p>Normal Retirement Age Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age Defined Benefit Component: Same as VRS Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject</p>

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		to restrictions.
<p>Earliest Unreduced Retirement Eligibility 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>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> 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>Political subdivisions hazardous duty employees: Not applicable</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: 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>Political subdivisions hazardous duty employees: Age 50 with at least five years of creditable service</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Not applicable</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as VRS Plan 2.</p>

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<p>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><u>Eligibility:</u> 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><u>Exceptions to COLA Effective Dates:</u> 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"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment 	<p>CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1</p>	<p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>
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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

<p>for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.</p> <ul style="list-style-type: none"> • 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. 		
<p>Disability Coverage</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>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage</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>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage</p> <p>Eligible political subdivision and school division (including Plan 1 and 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>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>
<p>Purchase of Prior Service</p> <p>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</p>	<p>Purchase of Prior Service</p> <p>Same as Plan 1.</p>	<p>Purchase of Prior Service</p> <p><u>Defined Benefit Component:</u></p> <p>Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher

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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.		<p>of 4% of creditable compensation or average final compensation.</p> <ul style="list-style-type: none"> Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that on-year period, the rate for most categories of service will change to actuarial cost. <p><u>Defined Contribution Component:</u> Not applicable.</p>
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Number of Employees by Class:

City Membership as of the Valuation Date in the Plan Consisted of:

June 30, 2015

	<u>Retirees and Beneficiaries</u>
Inactive Members or Their Beneficiaries Currently Receiving Benefits	3
Inactive Members	
Vested	10
Non-Vested	208
Active Elsewhere in VRS	69
Total Inactive Members	287
Active Members	886
Total	<u>1,176</u>

Contributions:

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer.

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Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The City's contractually required contribution rate for the year ended June 30, 2016 was 6.01% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$ 3,118,701 and \$2,346,626 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Asset:

The City's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Actuarial Assumptions:

The total pension liability for General Employees in the City's Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.5 percent
Salary increases, including Inflation	3.5 percent – 5.35%
Investment rate of return	7.0 Percent, net of pension plan investment expense, including inflation*

- * Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 14 % of deaths are assumed to be service related

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

Update mortality table

Decrease in rates of service retirement

Decrease in rates of disability retirement

Reduce rates of salary increase by 0.25% per year

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

All Others (Non 10 Largest) – Non-LEOS:

Update mortality table

Decrease in rates of service retirement

Decrease in rates of disability retirement

Reduce rates of salary increase by 0.25% per year

Long-term Expected Rate of Return:

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Avg Long-Term Expected Rate of Return
U.S Equity	19.50%	6.46%	1.26%
Developed Non U.S Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
	Inflation		2.50%
	*Expected arithmetic nominal return		8.33%

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

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Notes to Basic Financial Statements

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Discount Rate and Sensitivity of Net Pension Liability to Change in the Discount

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the Long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the net pension asset of the City using the discount rate of 7.00%, as well as what the City's net pension asset would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
Plan's Net Pension Asset	1,595,784	4,695,916	7,112,129

Detailed information about the PAC and Schools is available in the separately issued financial reports for each entity.

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Notes to Basic Financial Statements

June 30, 2016

Changes in the Net Pension Asset

The City's change in net pension asset of the VRS Plan for 2015 was as follows:

	Total Pension Liability	City's Fiduciary Net Position	Proprietary's Fiduciary Net Position	Net Position Asset
	(a)	(b)	(b)	(a)-(b)
Balances at June 30, 2014	\$ 10,096,492	\$ 13,054,604	\$ 982,605	\$ (3,940,717)
Changes for the year:				
Service cost	4,219,577	-	-	4,219,577
Interest	702,834	-	-	702,834
Differences between expected and actual experience	(522,034)	-	-	(522,034)
Contributions - employer	-	2,135,430	211,196	(2,346,626)
Contributions - member	-	1,869,742	184,920	(2,054,662)
Net investment income	-	691,966	68,436	(760,402)
Benefit payments	(112,015)	(101,934)	(10,081)	-
Administrative expenses	-	(5,403)	(534)	5,937
Other Changes	-	(161)	(16)	177
Net changes	<u>4,288,362</u>	<u>4,589,640</u>	<u>453,921</u>	<u>(755,199)</u>
Balances at June 30, 2015	<u>\$ 14,384,854</u>	<u>\$ 17,644,244</u>	<u>\$ 1,436,526</u>	<u>\$ \$ (4,695,916)</u>

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Notes to Basic Financial Statements

June 30, 2016

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the City recognized VRS pension expense of \$1,568,454. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Governmental Activities		Business- type Activities		Total Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions subsequent to measurement date	\$ 2,845,406	\$ -	\$ 273,295	\$ -	\$ 3,118,701	\$ -
Differences between expected and actual experience	\$ -	\$ 212,687	\$ -	\$ 18,494	\$ -	\$ 231,181
Net difference between projected and actual earnings on pension plan investment	\$ -	\$ 414,928	\$ -	\$ 36,081	\$ -	\$ 451,009

Amounts reported as deferred outflows of resources and deferred inflows of resources related to VRS will be recognized in pension expense as follows:

Year ended June 30:

2017	\$ (172,893)
2018	(172,893)
2019	(172,892)
2020	3,397
2021	(71,025)
Thereafter	(95,884)
Total	\$ (682,190)

Schedules of Employer Contributions, Changes in the City's Net Pension Liability and Related Ratios, and Schedule of City contributions are included in the Required Supplemental Information Section.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

Payable to the Pension Plan

At June 30, 2016, the City did not have a payable to the pension plan.

(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.

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

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that includes financial statements and required information for the OPEB Fund. This information can be obtained at <https://www.nnva.gov/580/Retirement>.

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	
	<u>Participants</u>	<u>Costs</u>	<u>Participants</u>	<u>Costs</u>	<u>Participants</u>	<u>Costs</u>
2016	1,814	\$ 6,816,017	1,556	\$ 540,441	1,625	\$ 337,698
2015	1,801	\$ 7,478,885	1,485	\$ 505,231	1,552	\$ 333,323
2014	1,786	\$ 7,682,357	1,408	\$ 507,588	1,771	\$ 368,590

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

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 \$8.9 million, \$10.2 million and \$10.2 million were made during the years ended June 30, 2016, 2015, and 2014 respectively. 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:

	2016	2015	2014
Annual Required Contribution	\$ 12,662,736	\$ 12,569,567	\$ 12,432,179
Interest on net OPEB Obligation	1,263,086	1,196,914	1,133,296
Adjustment to annual required contribution:	(2,021,315)	(1,872,194)	(1,735,035)
Annual OPEB Cost	11,904,507	11,894,287	11,830,440
Contributions made	(8,895,444)	(10,240,000)	(10,240,000)
Increase in net OPEB obligation	3,009,063	1,654,287	1,590,440
Net OPEB obligation at beginning of fiscal year	31,577,138	29,922,851	28,332,411
Net OPEB obligation at end of fiscal year	<u>\$ 34,586,201</u>	<u>\$ 31,577,138</u>	<u>\$ 29,922,851</u>

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June 30, 2016

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, 2016	\$ 11,904,507	74.72%	\$ 34,586,201
June 30, 2015	\$ 11,894,287	86.09%	\$ 31,577,138
June 30, 2014	\$ 11,830,440	86.56%	\$ 29,922,851

Funded Status and Funding Progress

The funded status of the City's OPEB Fund (in millions) as of fiscal, 2016, 2015 and 2014 was as follows:

	2016	2015	2014
Actuarial value of assets	\$ 27.5	\$ 27.5	\$ 25.1
Actuarial Accrued Liability (AAL)	183.5	178.0	176.0
Unfunded AAL (UAAL)	\$ 156.0	\$ 150.5	\$ 150.9

	2016	2015	2014
Funded Ratio	15.0 %	15.0 %	14.0 %
Covered Payroll	\$ 100.6	\$ 105.4	\$ 109.8
UAAL as a percentage of covered payroll	155.1 %	142.8 %	137.4 %

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.

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

Actuarial valuation date	July 1, 2016
Actuarial cost method	Projected Unit Credit
Amortization method	Entry Age Normal
Remaining amortization period	24 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	4.00%
Rate of salary increases	3.00%
Initial rate of Medical inflation	1.33%
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, 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 \$342,771 for the year ending June 30, 2016. Approximately 1,171 active employees are covered under the Plan, and 22 retired employees and spouses are currently receiving benefits.

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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:

	2016
Net OPEB obligation at beginning of fiscal year	\$ 2,672,719
Annual Required Contribution for FYE	1,220,147
Interest on Net OPEB Obligation	106,909
Adjustment to Annual Required Contribution	(154,564)
Annual OPEB Cost	\$ 1,172,492
Employer Contributions	(2,922,719)
Net OPEB obligation at end of fiscal year	<u>\$ 922,492</u>

Funded Status and Funding Progress

The funded status of the City's LOD Plan as of fiscal 2016 is as follows:

	2016
Actuarial value of assets	\$ 2,539,019
Actuarial Accrued Liability (AAL)	8,021,111
Unfunded AAL (UAAL)	<u>\$ 5,482,092</u>

	2016
Funded Ratio	32%
Covered Payroll	\$ 59,195,883
UAAL as a percentage of covered payroll	9%

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

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June 30, 2016

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 the short term. Significant methods and assumptions were as follows:

Actuarial valuation date	July 1, 2016
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Open
Remaining amortization period	30 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	4.25%
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.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

The School Board provides health and dental insurance for their retirees under the School's group plans and annually determines the retiree's contribution to participate in the medical plans. The total contribution is based on the active premium rates except that employees retiring after July 1, 2011 have their group premiums based upon the health claim experience of just the retiree group. The amount contributed by the School Board is based on the retiree's years of service at retirement. Retirees with thirty years of service and who retired by July 1, 2011 will pay what an active employee would pay. Retirees after that date pay higher premiums commensurate with claims experience.

Approximately 234 School Board retirees are grandfathered to participate in the City OPEB Fund's sponsored life insurance coverage paid for by the School Board. The premiums are not material. These retirees have elected supplemental coverage under the City 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 26-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.

Contributions to normal costs totaling \$0.7 million were made during the year ended June 30, 2016. The School Board's annual OPEB cost for the current year and past two years are as follows (in millions):

(in millions)	2016	2015	2014
Annual Required Contribution	\$ 7.8	\$ 7.4	\$ 8.8
Interest on net OPEB Obligation	2.1	2.1	2.2
Adjustment to annual required contribution:	(2.5)	(2.5)	(2.5)
Annual OPEB Cost	7.4	7.0	8.5
Contributions made	(7.8)	(7.4)	(8.6)
Increase in net OPEB obligation	(0.4)	(0.4)	(0.1)
Net OPEB obligation at beginning of fiscal year	28.3	28.7	28.8
Net OPEB obligation at end of fiscal year	<u>\$ 27.9</u>	<u>\$ 28.3</u>	<u>\$ 28.7</u>

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

Funded Status and Funding Progress

The funded status of the Schools plan as of June 30, 2016 was as follows:

(in millions)

Actuarial value of assets	\$	16.5
Actuarial Accrued Liability (AAL)		98.3
Unfunded AAL (UAAL)	\$	81.8
Funded ratio		16.8%
Covered Payroll	\$	105.7
UAAL as a percentage of covered payroll		77.4%

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.

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

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

Actuarial valuation date	7/1/15
Actuarial cost method	Projected Unit Credit
Amortization method	Level Dollar Closed
Amortization period	26 years
Asset valuation method	Market Value
Investment rate of return	7.50%

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

Rate of salary increases	NA
Ultimate rate of medical inflation	5.00%
Ultimate rate of medical inflation	5.00%

(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 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 2016, based on an average City salary of \$50,177 the City contributed \$1,505 per participant. For the year ended June 30, 2016, the City contributed a total of \$1,612,014 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.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

(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, 2016 and 2015 for the City and the Public Schools were as follows:

	City		Public Schools	
	2016	2015	2016	2015
Claims payable at beginning of year	\$ 3,536,469	4,331,252	2,661,000	2,792,000
Claims and changes in estimates	40,354,474	35,558,716	27,402,785	25,019,164
Claim payments	(40,627,943)	(36,353,499)	(27,236,785)	(25,150,164)
Claims payable at end of year	<u>\$ 3,263,000</u>	<u>\$ 3,536,469</u>	<u>2,827,000</u>	<u>2,661,000</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, 2016 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, 2016 and 2015 for the City and the Public Schools.

	City		Public Schools	
	2016	2015	2016	2015
Claims payable at beginning of year	\$ 11,171,408	11,443,096	4,757,302	2,901,090
Claims and changes in estimates	2,860,222	2,228,387	1,692,550	3,526,298
Claim payments	(2,519,200)	(2,500,075)	(1,554,082)	(1,670,086)
Claims payable at end of year	<u>\$ 11,512,430</u>	<u>11,171,408</u>	<u>4,895,770</u>	<u>4,757,302</u>

A loss analysis was conducted by Oliver Wyman Actuarial Consulting, Inc. on this fund. The total actuarially computed liability as of June 30, 2016 for the City and School Board was determined to be approximately \$11.5 million and \$4.9 million, respectively.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

(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 \$250,000 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.

Auto & General Liability	City	
	2016	2015
Claims payable at beginning of year	\$ 1,983,075	\$ 5,619,350
Claims and changes in estimates	2,443,028	(2,603,978)
Claim payments	(2,169,804)	(1,032,297)
Claims payable at end of year	<u>\$ 2,256,299</u>	<u>\$ 1,983,075</u>

The auto and general liability claims increased from \$2.0 million to \$2.3 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, 2016, 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, 2016, the City had outstanding encumbrances as follows:

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

General Fund

General government	\$ 1,168,998
Self insurance	16,290
Judicial	3,420
Public safety	740,375
Public works	1,542,420
Health and welfare	70,011
Parks, recreation and cultural	43,831
Community development	10,879
Total General Fund	<u>\$ 3,596,224</u>

Bond Fund

General government	\$ 22,330
Public safety	225,888
Public works	10,110,295
Health and welfare	46,425
Parks, recreation and cultural	407,477
Community development	1,410,510
Total Bond Fund	<u>\$ 12,222,925</u>

Nonmajor governmental funds

General government	\$ 4,759,956
Public safety	914,605
Public works	13,525,360
Health and welfare	13,249
Parks, recreation and cultural	141,462
Community development	\$ 344,681
Total nonmajor governmental funds	<u>\$ 19,699,313</u>
Total	<u><u>\$ 35,518,462</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 public corporate instrumentality of the Commonwealth of Virginia, created December 14, 1993, by the cities of Hampton, Newport News, Norfolk and Portsmouth. Beginning July 1, 2014, the City of Chesapeake entered into an agreement with the Authority to become a full member upon adoption of the agreement by all five City Councils. This was accomplished by approval of a revised and restated

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

Service Agreement by all five governing bodies, effective August 26, 2014. The HRRJA is governed by a fifteen-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 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 County, 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 16. Separate financial statements are available from the HREDA, 500 Main Street, Suite 1300, Norfolk, Virginia 23510.

(14) Deficit Fund Balance

The City has an accumulated deficit of \$146,680 and \$283,021 in the Non Major Combining Statement of Revenues, Expenditures and Changes in Fund Balance as of June 30, 2016 for the Comprehensive Services Act fund and the Animal Shelter fund respectively. The Comprehensive Services Act fund deficit is the result of expenditures exceeding revenue for fiscal year 2016. This deficit does not indicate the Comprehensive Services Act fund is facing financial difficulty. The Animal Shelter fund deficit is the result of operating expenditures exceeding budgeted amounts. Fiscal year 2016 was the first full year of operations. As a result, budgeted amounts were inadequate to cover unforeseen operating overages. This deficit does not indicate the Animal Shelter fund is facing financial difficulty.

(15) Subsequent Events

Subsequent events have been analyzed through November 22, 2016 noting the following:

E/IDA

The E/IDA authorized the acquisition of 13785 Warwick Boulevard, 360 Tabbs Lane, 13795 Warwick Boulevard, 13795 B Warwick Boulevard, 13781 Warwick Boulevard and 13783 B Warwick Boulevard totaling 10.95 acres for \$4,800,000 on July 1, 2016. This purchase was closed on September 26, 2016. In addition, on July 1, 2016, the E/IDA authorized the purchase of 13771 Warwick Boulevard, a 9.42 acre site, in the amount of \$3,000,000.

In July 2016, Printpack, Inc. purchased, from the E/IDA, 270 Pickets Line located in Oakland Industrial Park for \$4,000,000 announcing plans for a 150,000 square-foot building expansion of their existing facility.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2016

The Commonwealth offered a grant of \$150,000 from its Commonwealth Opportunity Fund which will be dispersed once the facility is complete.

Due to the purchase of City Center assets by a new entity, the E/IDA approved a Master Parking Agreement and associated parking assignments and approved the assignment of the Master Parking Agreement to the prospective buyer at closing. This Master agreement allows free parking for at least 15 years but includes \$0.20 per building square foot parking operating assessment to help support garage maintenance.

On August 5, 2016, the E/IDA authorized the issuance of up to \$104,000,000 of tax-exempt revenue bonds for the benefit of Virginia Baptist Homes d/b/a LifeSpire of Virginia and its Affiliates (VBH). These bonds will be included in next year's conduit debt schedule.

The E/IDA authorized an Incentive Contribution Agreement between the Economic Development Authority and W.M. Jordan Development, LLC, based upon W.M. Jordan's construction of Building One at Tech Center, in order to facilitate the expense of engineering, design and construction of Hogan Drive Improvements in the estimated amount of \$5,309,490, subject to City Council appropriation.

The E/IDA authorized an Expansion/Relocation Cost Reduction Enterprise Zone Incentive Agreement with Davis Boat Works, Inc. d/b/a Fairlead Boatworks of \$190,000 based upon Fairlead Boatworks performance targets of 25 new jobs and \$1.5 million in capital investment.

Public Schools

In August 2016, the School Board amended the facility notes payable agreement with Banc of America Public Capital Corp. to borrow an additional \$2,838,843 to provide funding for the installation of LED lighting upgrades in most School Board facilities. Payments will be made starting March 1, 2017 and continue until March 1, 2031. The interest rate is 2.04%. The initial payment in 2017 will be \$181,059 (principal and interest) and slowly escalate to a final payment of \$263,817 (principal and interest) in 2031.

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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, 2016

	<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	\$ 172,297,782	172,297,782	173,038,151	740,369
Real and personal public service corporation property taxes	6,337,155	6,337,155	6,340,601	3,446
Personal property taxes	52,869,000	52,869,000	55,319,831	2,450,831
Machinery and tools taxes	20,000,000	20,000,000	20,312,830	312,830
Penalties and interest	1,106,000	1,106,000	1,430,842	324,842
Total general property taxes	<u>252,609,937</u>	<u>252,609,937</u>	<u>256,442,255</u>	<u>3,832,318</u>
Other local taxes:				
E-911 service revenue	710,946	710,946	701,894	(9,052)
Telecom sales taxes	11,900,000	11,900,000	11,289,782	(610,218)
Local sales and use taxes	24,297,629	24,297,629	23,601,270	(696,359)
Consumers' utility taxes	6,550,000	6,550,000	6,262,091	(287,909)
Consumption tax	710,000	710,000	669,850	(40,150)
Business license taxes	17,060,000	17,060,000	16,383,239	(676,761)
Rental car taxes	1,218,000	1,218,000	1,115,643	(102,357)
Motor vehicle license	4,150,000	4,150,000	4,096,782	(53,218)
Bank stock taxes	755,000	755,000	804,718	49,718
Taxes on recordation and wills	1,685,000	1,685,000	1,490,565	(194,435)
Tobacco taxes	5,200,000	5,200,000	4,808,217	(391,783)
Hotel and motel room taxes	4,125,001	4,125,001	4,297,160	172,159
Restaurant food taxes	24,000,000	24,000,000	25,551,404	1,551,404
Tourism zone taxes	203,844	203,844	81,172	(122,672)
Amusement taxes	921,590	921,590	929,005	7,415
Total other local taxes	<u>103,487,010</u>	<u>103,487,010</u>	<u>102,082,792</u>	<u>(1,404,218)</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	55,000	55,000	48,430	(6,570)
Permits and other licenses	3,363,048	3,363,048	3,364,607	1,559
Total permits, privilege fees, and regulatory licenses	<u>3,418,048</u>	<u>3,418,048</u>	<u>3,413,037</u>	<u>(5,011)</u>
Fines and forfeitures	<u>2,353,968</u>	<u>2,353,968</u>	<u>1,516,694</u>	<u>(837,274)</u>
Revenue from use of money and property:				
Revenue from use of money	415,637	415,637	662,902	247,265
Revenue from use of property	<u>1,890,649</u>	<u>1,890,649</u>	<u>1,737,186</u>	<u>(153,463)</u>
Total revenue from use of money and property	<u>2,306,286</u>	<u>2,306,286</u>	<u>2,400,088</u>	<u>93,802</u>
Charges for services:				
Court costs	1,028,097	1,028,097	941,812	(86,285)
Law enforcement and traffic control	161,031	161,031	81,765	(79,266)
Fire and rescue services	4,145,825	4,145,825	4,045,904	(99,921)
Information Technology	1,586,582	1,586,582	1,586,482	(100)
Parks and recreation	7,100,164	7,100,164	7,189,594	89,430
Cultural enrichment	188,817	188,817	145,258	(43,559)
Self-insurance premiums	2,049,893	2,049,893	2,114,004	64,111
Library	66,000	66,000	57,807	(8,193)
Planning and community development	3,900	3,900	1,458	(2,442)
Indirect costs	5,000,344	5,000,344	4,954,954	(45,390)
Animal services	39,861	39,861	42,259	2,398
Applied research center	278,307	278,307	283,356	5,049
Total charges for services	<u>\$ 21,648,821</u>	<u>21,648,821</u>	<u>21,444,653</u>	<u>(204,168)</u>

(continued)

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, 2016

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Recovered costs:				
Health department	\$ 29,997	29,997	38,715	8,718
Juvenile detention home	4,059,549	4,059,549	4,246,805	187,256
City farm	-	-	86,112	86,112
City jail	1,966,588	1,966,588	1,161,416	(805,172)
Sewer assessments - debt service	18,000	18,000	120,318	102,318
Total recovered costs	<u>6,074,134</u>	<u>6,074,134</u>	<u>5,653,366</u>	<u>(420,768)</u>
Miscellaneous revenues:				
Payments in lieu of taxes	2,469,568	2,469,568	2,424,509	(45,059)
Miscellaneous	1,771,622	1,771,622	1,727,586	(44,036)
Total miscellaneous revenues	<u>4,241,190</u>	<u>4,241,190</u>	<u>4,152,095</u>	<u>(89,095)</u>
Total revenues from local sources	<u>396,139,394</u>	<u>396,139,394</u>	<u>397,104,980</u>	<u>965,586</u>
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' taxes	67,619	67,619	68,631	1,012
Mobile home titling taxes	50,000	50,000	84,461	34,461
Tax on deeds	450,000	450,000	407,432	(42,568)
State rebate - recording tax	560,518	560,518	478,884	(81,634)
DCJP grants for law enforcement	8,742,111	8,742,111	8,742,112	1
Total noncategorical aid	<u>9,870,248</u>	<u>9,870,248</u>	<u>9,781,520</u>	<u>(88,728)</u>
Shared expenses:				
Technology trust fund	33,611	33,611	33,611	-
Commonwealth's Attorney	1,912,732	1,912,732	1,854,956	(57,776)
Sheriff	7,511,904	7,511,904	7,155,742	(356,162)
Commissioner of the Revenue	384,311	384,311	384,305	(6)
Treasurer	340,663	340,663	248,231	(92,432)
Registrar/Electoral Board	57,539	57,539	58,294	755
Total shared expenses	<u>10,240,760</u>	<u>10,240,760</u>	<u>9,735,139</u>	<u>(505,621)</u>
Categorical aid:				
Welfare	22,456,229	22,456,229	23,517,041	1,060,812
Emergency medical service funds	155,000	155,000	-	(155,000)
Library	169,726	169,726	169,726	-
Other	-	-	14,085	14,085
Total categorical state aid	<u>22,780,955</u>	<u>22,780,955</u>	<u>23,700,852</u>	<u>919,897</u>
Total revenue from the Commonwealth	<u>42,891,963</u>	<u>42,891,963</u>	<u>43,217,511</u>	<u>325,548</u>
Other financing sources:				
Transfers from other funds	9,500,000	9,500,000	9,500,000	-
Transfers from fund balance	4,500,000	4,500,000	-	(4,500,000)
Total revenues	<u>\$ 453,031,357</u>	<u>453,031,357</u>	<u>449,822,491</u>	<u>(3,208,866)</u>

(continued)

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, 2016

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures:				
General government administration:				
Legislative:				
City Council	\$ 274,530	274,530	263,893	10,637
City Clerk	324,275	324,275	344,862	(20,587)
Total legislative	598,805	598,805	608,755	(9,950)
General and financial administration:				
City Manager	1,243,797	1,243,797	1,325,618	(81,821)
Human resources	1,180,664	1,180,664	1,125,142	55,522
Medical services	65,075	65,075	67,991	(2,916)
City Attorney	1,653,999	1,653,999	1,654,837	(838)
Internal Auditor	528,181	528,181	538,399	(10,218)
Commissioner of the Revenue	2,493,290	2,493,290	2,219,584	273,706
Real Estate Assessor	1,618,675	1,618,675	1,585,793	32,882
City Treasurer	2,158,469	2,158,469	2,116,422	42,047
Finance	1,206,189	1,206,189	1,242,600	(36,411)
Budget and evaluation	689,076	689,076	601,437	87,639
Auto self-insurance	1,419,300	1,419,300	1,346,597	72,703
General liability self-insurance	1,763,000	3,363,000	3,287,098	75,902
Workers' compensation	3,253,500	3,253,500	2,943,765	309,735
Purchasing	1,110,634	1,110,634	1,256,542	(145,908)
Information technology	8,338,531	8,338,531	8,057,274	281,257
Total general and financial administration	28,722,380	30,322,380	29,369,099	953,281
Board of Elections -				
Registrar	426,603	426,603	572,350	(145,747)
Nondepartmental:				
Appointed boards	101,662	101,662	97,969	3,693
Community support	2,426,089	2,426,089	2,420,319	5,770
Contract community agencies	8,000,735	8,000,735	8,040,824	(40,089)
City development	39,548,442	42,221,161	37,806,218	4,414,943
Contractual services	2,256,552	2,256,552	2,096,027	160,525
Internal services	177,000	177,000	1,155	175,845
Machinery and equipment	771,000	771,000	693,265	77,735
Strategic priorities	1,560,500	1,560,500	1,512,237	48,263
Street lighting	717,710	717,710	150,108	567,602
Other	6,459,132	11,744,887	5,544,970	6,199,917
Total nondepartmental	62,018,822	69,977,296	58,363,092	11,614,204
Total general government administration	91,766,610	101,325,084	88,913,296	12,411,788
Judicial administration:				
Courts:				
Circuit Courts	454,084	454,084	453,214	870
District Courts	158,214	158,214	58,253	99,961
Office of the Magistrate	253,295	253,295	217,342	35,953
Juvenile/Domestic Relations Court	57,000	57,000	47,757	9,243
Clerk of the Circuit Court	1,503,059	1,503,059	1,469,704	33,355
Court services	476,168	476,168	463,743	12,425
Total courts	2,901,820	2,901,820	2,710,013	191,807
Commonwealth's Attorney	3,673,259	3,673,259	3,735,769	(62,510)
Total judicial administration	\$ 6,575,079	6,575,079	6,445,782	129,297

(continued)

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, 2016

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 43,360,322	43,360,322	44,626,835	(1,266,513)
Emergency communications	415,048	415,048	308,958	106,090
Total law enforcement and traffic control	<u>43,775,370</u>	<u>43,775,370</u>	<u>44,935,793</u>	<u>(1,160,423)</u>
Fire and rescue services:				
Fire department	28,293,086	28,293,086	30,001,320	(1,708,234)
Ambulance and rescue service	2,082,213	2,082,213	2,183,187	(100,974)
Total fire and rescue services	<u>30,375,299</u>	<u>30,375,299</u>	<u>32,184,507</u>	<u>(1,809,208)</u>
Correction and detention:				
Sheriff	20,028,105	20,028,105	20,657,880	(629,775)
Juvenile detention	7,360,821	7,360,821	7,591,272	(230,451)
Total correction and detention	<u>27,388,926</u>	<u>27,388,926</u>	<u>28,249,152</u>	<u>(860,226)</u>
Inspection – codes compliance	2,853,261	2,853,261	2,891,401	(38,140)
Total public safety	<u>104,392,856</u>	<u>104,392,856</u>	<u>108,260,853</u>	<u>(3,867,997)</u>
Public works:				
Engineering:				
Administration	234,482	234,482	333,278	(98,796)
Civil services	465,675	465,675	511,061	(45,386)
Technical support	410,497	410,497	282,642	127,855
Site & subdivision services	1,024,707	1,024,707	1,032,814	(8,107)
Transportation services	65,304	65,304	222,566	(157,262)
Total engineering	<u>2,200,665</u>	<u>2,200,665</u>	<u>2,382,361</u>	<u>(181,696)</u>
Public works administration	53,917	53,917	723,953	(670,036)
Maintenance of highways, streets, bridges, and sidewalks	792,940	792,940	54,025	738,915
Maintenance of general buildings and grounds	10,554,281	10,554,281	10,358,883	195,398
Total public works	<u>13,601,803</u>	<u>13,601,803</u>	<u>13,519,222</u>	<u>82,581</u>
Health and welfare:				
Health -				
Medical services	3,356,024	3,356,024	3,523,931	(167,907)
Welfare:				
Social services administration	8,240,821	8,240,821	8,204,188	36,633
Financial services	6,894,541	6,894,541	6,607,973	286,568
Social work services	10,937,630	10,937,630	12,260,461	(1,322,831)
Healthy families	1,525,601	1,525,601	1,486,021	39,580
Employment service program	1,830,918	1,830,918	1,838,130	(7,212)
CSA administration	390,623	390,623	397,981	(7,358)
Fuel assistance	27,903	27,903	26,683	1,220
Homeless family services	435,210	435,210	460,646	(25,436)
Cooperative extension	204,936	204,936	200,193	4,743
Total welfare	<u>30,488,183</u>	<u>30,488,183</u>	<u>31,482,276</u>	<u>(994,093)</u>
Total health and welfare	<u>\$ 33,844,207</u>	<u>33,844,207</u>	<u>35,006,207</u>	<u>(1,162,000)</u>

(continued)

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, 2016

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Parks, recreation and cultural:				
Parks and recreation:				
Administration	\$ 5,994,710	5,994,710	5,777,407	217,303
Recreation division	2,653,532	2,653,532	2,425,368	228,164
Parks division	3,511,919	3,511,919	3,654,326	(142,407)
Recreation classes	4,564,175	4,564,175	4,827,160	(262,985)
Golf course	1,663,000	1,663,000	1,795,027	(132,027)
Leeward Marina	271,000	271,000	226,770	44,230
Festival support	231,823	231,823	353,602	(121,779)
Tourism, promotion and development	1,384,000	1,384,000	1,547,961	(163,961)
Animal services	565,898	565,898	667,165	(101,267)
Total parks and recreation	<u>20,840,057</u>	<u>20,840,057</u>	<u>21,274,786</u>	<u>(434,729)</u>
Cultural enrichment – museum	1,069,000	1,069,000	1,130,134	(61,134)
Library	4,431,223	4,431,223	4,257,832	173,391
Total parks, recreation and cultural	<u>26,340,280</u>	<u>26,340,280</u>	<u>26,662,752</u>	<u>(322,472)</u>
Community development:				
Planning and community development:				
Development	1,135,160	1,135,160	1,156,852	(21,692)
Planning	1,097,758	1,097,758	1,016,893	80,865
Communications	1,574,540	1,574,540	1,470,742	103,798
Economic development	4,280,667	4,280,667	3,940,050	340,617
Total community development	<u>8,088,125</u>	<u>8,088,125</u>	<u>7,584,537</u>	<u>503,588</u>
Education:				
General fund transfer to Public Schools	118,300,000	118,300,000	118,300,000	-
Capital projects' transfer to Public Schools	2,000,000	2,000,000	2,000,000	-
Total educations	<u>120,300,000</u>	<u>120,300,000</u>	<u>120,300,000</u>	<u>-</u>
Transfers to other funds:				
Debt service	36,991,343	36,991,343	33,922,260	3,069,083
Capital projects	7,608,626	7,633,626	9,533,626	(1,900,000)
Other	3,522,428	3,522,428	3,192,428	330,000
Total transfers to other funds	<u>48,122,397</u>	<u>48,147,397</u>	<u>46,648,314</u>	<u>1,499,083</u>
Total expenditures and transfers to other funds	<u>\$ 453,031,357</u>	<u>462,614,831</u>	<u>453,340,963</u>	<u>9,273,868</u>
Deficiency of revenues under expenditures	<u>-</u>	<u>(9,583,474)</u>	<u>(3,518,472)</u>	<u>6,065,002</u>
Less encumbrances outstanding at June 30, 2015 expended or canceled at June 30, 2016			(5,963,387)	
Add encumbrances outstanding at June 30, 2016			3,596,224	
FY 2016 deficit			(5,885,635)	
Fund balance at beginning of year			100,457,241	
Fund balance at end of year			<u>\$ 94,571,606</u>	

See accompanying notes to required supplementary information

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CITY OF NEWPORT NEWS, VIRGINIA
Required Supplementary Information
OPEB Fund
Schedule of Employer Contributions (Unaudited)
(in millions)
Year ended June 30, 2016

Newport News Employees' OPEB Fund (in millions):

Fiscal year end		Annual required contribution	Actual contribution	Percentage contributed
2016	City	\$ 12.7	\$ 8.9	70%
2015	City	12.5	10.2	82%
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%

CITY OF NEWPORT NEWS, VIRGINIA
Required Supplementary Information
Schedule of Changes in the City's Net Position Liability and Related Ratios for NNERF
Fiscal years ended June 30

	<u>2016</u>	<u>2015</u>
Total Pension Liability		
Service costs	\$ 9,926,558	10,534,763
Interest	88,917,067	86,803,765
Differences between expected and actual experience	6,665,024	-
Changes of assumptions	-	-
Benefit payments, including refunds of member contributions	(69,527,978)	(67,393,918)
Net change in total pension Liability	35,980,671	29,944,610
Total pension liability - beginning	1,209,769,860	1,179,825,250
Total pension liability - ending	\$ 1,245,750,531	1,209,769,860
Plan Fiduciary net position		
Contributions-employer	\$ 33,258,275	29,364,826
Contributions-member	6,738,148	6,558,611
Net investment income	26,194,662	113,205,029
Benefit payments, including refunds of member contributions	(69,527,978)	(67,393,918)
Administrative expense	(1,003,673)	(866,517)
Net change in plan fiduciary net position	\$ (4,340,566)	80,868,031
Plan Fiduciary net position - beginning	854,980,801	774,112,770
Plan Fiduciary net position - ending	\$ 850,640,235	854,980,801
Net Pension liability ending	\$ 395,110,296	354,789,059
Plan fiduciary net position as a percentage of the total pension liability	68.28%	70.67%
Coverd employee payroll	\$ 123,619,906	129,912,288
Net position liability as a percentage of covered employee payroll	319.62%	273.10%

Note: This schedule is intended to show information for 10 years. However, additional years will be included as they become available.

CITY OF NEWPORT NEWS, VIRGINIA
Required Supplementary Information
Schedule of Changes in the City's Net Position Asset and Related Ratios for VRS
Fiscal years ended June 30, 2016

	<u>2016</u>	<u>2015</u>
Total Pension Liability		
Service costs	\$ 4,219,577	3,376,352
Interest	702,834	441,527
Differences between expected and actual experience	(522,034)	-
Benefit payments, including refunds of member contributions	(112,015)	(57,843)
Net change in total pension Liability	4,288,362	3,760,036
Total pension liability - beginning	10,096,492	6,336,456
Total pension liability - ending	\$ 14,384,854	10,096,492
 Plan Fiduciary net position		
Contributions-employer	\$ 2,346,626	3,039,422
Contributions-member	2,054,662	1,685,840
Net investment income	760,402	1,589,581
Benefit payments, including refunds of member contributions	(112,015)	(57,843)
Administrative expense	(5,937)	(4,461)
Other	(177)	83
Net change in plan fiduciary net position	\$ 5,043,561	6,252,622
Plan Fiduciary net position - beginning	14,037,209	7,784,587
Plan Fiduciary net position - ending	\$ 19,080,770	14,037,209
 Net Pension asset ending	\$ (4,695,916)	(3,940,717)
 Plan fiduciary net position as a percentage of the total pension asset	132.64%	139.03%
 Covered employee payroll	\$ 47,926,329	36,397,255
Net position asset as a percentage of covered employee payroll	9.80%	10.83%

Note: This schedule is intended to show information for 10 years. However, additional years will be included as they become available.

CITY OF NEWPORT NEWS, VIRGINIA
Required Supplementary Information
Schedule of City & NNPS Contributions NNERF
(Dollar amounts in thousands)

		<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$	39,154	40,394	40,628
Contributions in relation to the actuarially determined contribution		<u>39,006</u>	<u>33,258</u>	<u>29,365</u>
Contribution deficiency	\$	<u><u>148</u></u>	<u><u>7,136</u></u>	<u><u>11,263</u></u>
 Covered-employee payroll	\$	 118,640	 123,620	 129,912
Contributions as a percentage of Covered-employee payroll		32.88%	26.90%	22.60%

Schedule of City Contributions VRS
(Dollar amounts in thousands)

		<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$	3,119	2,347
Contributions in relation to the actuarially determined contribution		<u>3,119</u>	<u>2,347</u>
Contribution excess	\$	<u><u>-</u></u>	<u><u>-</u></u>
 Covered-employee payroll	\$	 47,926	 36,397
Contributions as a percentage of Covered-employee payroll		6.51%	6.45%

Note: This schedule is intended to show information for 10 years. However, additional years will be included as they become available. 2016 data for VRS was unavailable.

CITY OF NEWPORT NEWS, VIRGINIA
Required Supplementary Information
Schedule of Funding Progress (unaudited)
Year ended June 30, 2016

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
June 30, 2016	\$ 27	\$ 184	\$ (157)	15%	\$ 101	-155.1%
June 30, 2015	27	178	(151)	15%	105	-142.8%
June 30, 2014	25	176	(151)	14%	110	-137.4%
June 30, 2013	21	173	(152)	12%	115	-132.2%
June 30, 2012	16	217	(201)	7%	114	-177.2%
June 30, 2011	14	232	(218)	6%	119	-183.7%
June 30, 2010	10	237	(227)	4%	125	-181.7%

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, 2016	\$ 2,539	\$ 8,021	\$ (5,482)	32%	\$ 59,196	-9.3%
July 1, 2015	-	9,985	(9,985)	0%	56,418	-17.7%
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%

****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
06/30/2015	\$ 16.5	\$ 98.3	\$ (81.8)	16.8%	\$ 105.7	-77.6%
06/30/2014	15.8	93.0	(77.2)	17.0%	111.5	-69.4%
06/30/2013	13.8	104.3	(90.5)	13.2%	119.8	-75.7%
06/30/2012	11.0	101.4	(90.4)	9.8%	128.6	-70.5%
06/30/2011	8.8	83.8	(75.0)	10.5%	136.7	-54.9%
06/30/2010	6.4	71.8	(65.4)	8.9%	147.0	-44.5%

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Required Supplementary Information

Year ended June 30, 2016

(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 2016 for the following reasons: (1) grant matching, (2) funding to meet the increase in operating expenses.

(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, Animal Shelter, 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, 2015

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, Animal Shelter 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, 2016

		Special Revenue						
	Assets	Community development	Street maintenance	Economic development	Law library	Stormwater	Solid waste	Wastewater
	Cash and cash equivalents	\$ 14,146	-	1,195,246	166,204	9,063,505	1,681,319	313,439
	Restricted cash	-	-	-	-	-	-	-
	Accounts receivable, net	-	-	-	9,944	840,090	1,523,889	1,186,416
	Receivable from other governments:							
	Local	-	-	-	-	-	-	-
	Virginia	37,624	-	-	-	-	-	-
	Federal	-	-	-	-	-	-	-
	Advances to other funds	-	-	-	-	-	-	-
	Inventory	-	-	-	-	-	-	-
	Total assets	\$ 51,770	-	1,195,246	176,148	9,903,595	3,205,208	1,499,855
	Liabilities							
	Accounts payable	\$ 51,770	-	5,952	2,162	147,092	412,992	267,493
	Accrued liabilities	-	-	-	-	74,626	43,455	149,526
	Unearned revenues	-	-	-	-	-	33,023	-
	Advances from other funds	-	-	-	-	-	-	-
	Advances from major governmental funds	-	-	-	-	-	-	-
	Total liabilities	51,770	-	5,952	2,162	221,718	489,470	417,019
	Deferred Inflows of Resources							
	Unavailable revenue-stormwater fees	-	-	-	-	600,486	-	-
	Fund Balances							
	Restricted	-	-	-	25	9,081,391	2,715,738	1,082,836
	Committed	-	-	1,189,294	173,961	-	-	-
	Unassigned	-	-	-	-	-	-	-
	Total fund balances	-	-	1,189,294	173,986	9,081,391	2,715,738	1,082,836
	Total liabilities, deferred inflows and fund balances	\$ 51,770	-	1,195,246	176,148	9,903,595	3,205,208	1,499,855

(continued)

CITY OF NEWPORT NEWS, VIRGINIA

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016

	Special Revenue				Capital Projects		
Assets	Comprehensive Services Act	Criminal Justice Academy	Animal shelter	Other federal and state	General capital improvements	Other federal and state	Total nonmajor
Cash and cash equivalents	\$ -	198,210	200	1,663,522	16,606,268	-	30,902,059
Restricted cash	-	-	-	-	-	1,924,549	1,924,549
Accounts receivable, net	-	-	-	-	-	-	3,560,339
Receivable from other governments:							
Local	-	-	-	453	597,911	-	598,364
Virginia	917,234	-	-	288,847	-	2,780,702	4,024,407
Federal	-	-	-	666,829	57,089	1,873,914	2,597,832
Advances to other fund	-	-	-	-	2,970,128	-	2,970,128
Inventory	-	-	6,807	-	-	-	6,807
Total assets	\$ 917,234	198,210	7,007	2,619,651	20,231,396	6,579,165	46,584,485
Liabilities							
Accounts payable	\$ 723,804	-	56,570	86,570	819,236	1,233,535	3,807,176
Accrued liabilities	-	-	10,886	4,590	200,333	5,593	489,009
Unearned revenues	-	-	-	-	-	-	33,023
Advances from other fund	-	-	-	-	-	2,970,128	2,970,128
Advances from General Fund	340,110	-	222,572	560,844	-	-	1,123,526
Total liabilities	1,063,914	-	290,028	652,004	1,019,569	4,209,256	8,422,862
Deferred Inflows of Resources							
Unavailable revenue-stormwater fees	-	-	-	-	-	-	600,486
Fund Balances							
Restricted	-	-	-	1,967,647	-	2,369,909	17,217,546
Committed	-	198,210	-	-	19,211,827	-	20,773,292
Unassigned	(146,680)	-	(283,021)	-	-	-	(429,701)
Total fund balances	(146,680)	198,210	(283,021)	1,967,647	19,211,827	2,369,909	37,561,137
Total liabilities, deferred inflows and fund balances	\$ 917,234	198,210	7,007	2,619,651	20,231,396	6,579,165	46,584,485

CITY OF NEWPORT NEWS, VIRGINIA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended June 30, 2016

	Special Revenue						
	Community development	Street maintenance	Economic development	Law library	Stormwater	Solid waste	Wastewater
Revenues:							
Intergovernmental:							
Local	\$ -	-	-	-	-	-	-
Virginia	-	16,584,586	-	-	-	27,411	-
Federal	3,140,584	-	-	-	-	-	-
Charges for services	-	-	-	119,869	19,289,536	14,450,733	20,698,692
Interest and rents	-	-	159,034	-	84,710	2,577	(1,950)
Sale of property	-	-	850	-	-	-	-
Miscellaneous	-	-	-	-	-	4,402	-
Total revenues	3,140,584	16,584,586	159,884	119,869	19,374,246	14,485,123	20,696,742
Expenditures:							
Current operating:							
General government	-	-	-	119,063	-	-	-
Public safety	-	-	-	-	-	-	-
Public works	-	16,584,586	-	-	13,586,495	12,455,115	13,450,110
Health and welfare	-	-	-	-	-	-	-
Parks, recreation, and culture	-	-	-	-	-	-	-
Community development	3,140,584	-	245,916	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Total expenditures	3,140,584	16,584,586	245,916	119,063	13,586,495	12,455,115	13,450,110
Excess (deficiency) of revenues over (under) expenditures	-	-	(86,032)	806	5,787,751	2,030,008	7,246,632
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	(3,894,834)	(977,424)	(6,657,724)
Total other financing sources (uses), net	-	-	-	-	(3,894,834)	(977,424)	(6,657,724)
Net changes in fund balances	-	-	(86,032)	806	1,892,917	1,052,584	588,908
Fund balances at June 30, 2015	-	-	1,275,326	173,180	7,188,474	1,663,154	493,928
Fund balances at June 30, 2016	\$ -	-	1,189,294	173,986	9,081,391	2,715,738	1,082,836

(continued)

CITY OF NEWPORT NEWS, VIRGINIA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

Year ended June 30, 2016

	Special Revenue				Capital Projects		
	Comprehensive Services Act	Criminal Justice Academy	Animal shelter	Other federal and state	General capital improvements	Other federal and state	Total nonmajor
Revenues:							
Intergovernmental:							
Local	\$ -	-	1,019,903	495,370	399,002	-	1,914,275
Virginia	3,573,377	-	-	1,899,323	-	2,933,772	25,018,469
Federal	284,078	-	-	2,664,335	53,925	3,992,905	10,135,827
Charges for services	-	104,309	99,799	-	-	-	54,762,938
Interest and rents	-	-	-	4,846	12,134	7,787	269,138
Sale of Property	-	-	-	-	-	-	850
Miscellaneous	-	-	760	-	-	-	5,162
Total revenues	<u>3,857,455</u>	<u>104,309</u>	<u>1,120,462</u>	<u>5,063,874</u>	<u>465,061</u>	<u>6,934,464</u>	<u>92,106,659</u>
Expenditures:							
Current operating:							
General government	-	-	-	-	1,400,000	-	1,519,063
Public safety	-	11,258	-	4,523,219	-	-	4,534,477
Public works	-	-	-	-	-	-	56,076,306
Health and welfare	5,938,704	-	-	575,178	-	-	6,513,882
Education	-	-	-	-	2,000,000	-	2,000,000
Parks, recreation, and culture	-	-	1,614,932	69,654	-	-	1,684,586
Community development	-	-	-	-	-	-	3,386,500
Capital outlay	-	-	-	-	20,476,847	6,749,444	27,226,291
Total expenditures	<u>5,938,704</u>	<u>11,258</u>	<u>1,614,932</u>	<u>5,168,051</u>	<u>23,876,847</u>	<u>6,749,444</u>	<u>102,941,105</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,081,249)</u>	<u>93,051</u>	<u>(494,470)</u>	<u>(104,177)</u>	<u>(23,411,786)</u>	<u>185,020</u>	<u>(10,834,446)</u>
Other financing sources (uses):							
Transfers in	1,740,247	-	912,097	-	12,073,710	-	14,726,054
Transfers out	-	-	(724,610)	-	-	-	(12,254,592)
Total other financing sources (uses), net	<u>1,740,247</u>	<u>-</u>	<u>187,487</u>	<u>-</u>	<u>12,073,710</u>	<u>-</u>	<u>2,471,462</u>
Net changes in fund balances	<u>(341,002)</u>	<u>93,051</u>	<u>(306,983)</u>	<u>(104,177)</u>	<u>(11,338,076)</u>	<u>185,020</u>	<u>(8,362,984)</u>
Fund balances at June 30, 2015	<u>194,322</u>	<u>105,159</u>	<u>23,962</u>	<u>2,071,824</u>	<u>30,549,903</u>	<u>2,184,889</u>	<u>45,924,121</u>
Fund balances at June 30, 2016	<u>\$ (146,680)</u>	<u>198,210</u>	<u>(283,021)</u>	<u>1,967,647</u>	<u>19,211,827</u>	<u>2,369,909</u>	<u>37,561,137</u>

CITY OF NEWPORT NEWS, VIRGINIA
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
Special Revenue Funds
Year ended June 30, 2016

	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:																
Local	\$ -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Virginia	15,889,942	16,584,586	16,584,586	-	-	-	-	-	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-	151,600	151,600	119,869	(31,731)	21,484,459	21,884,459	19,289,536	(2,594,923)
Sale of property	-	-	-	-	15,000	15,000	850	(14,150)	-	-	-	-	-	-	-	-
Interest and rents	-	-	-	-	156,526	156,526	159,034	2,508	-	-	-	-	21,051	21,051	84,710	63,659
Miscellaneous	-	-	-	-	74	74	-	(74)	-	-	-	-	-	-	-	-
Total revenues	15,889,942	16,584,586	16,584,586	-	171,600	171,600	159,884	(11,716)	151,600	151,600	119,869	(31,731)	21,505,510	21,905,510	19,374,246	(2,531,264)
Expenditures:																
Current:																
General government	-	-	-	-	-	-	-	-	151,600	151,600	119,063	32,537	-	-	-	-
Public works	15,889,942	16,584,586	16,584,586	-	-	-	-	-	-	-	-	-	16,002,729	17,223,388	13,586,495	3,636,893
Parks, recreation, and culture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Community development	-	-	-	-	171,600	171,600	245,916	(74,316)	-	-	-	-	-	-	-	-
Total expenditures	15,889,942	16,584,586	16,584,586	-	171,600	171,600	245,916	(74,316)	151,600	151,600	119,063	32,537	16,002,729	17,223,388	13,586,495	3,636,893
Transfers In	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers Out	-	-	-	-	-	-	-	-	-	-	-	-	3,894,834	3,894,834	3,894,834	-
Excess (deficiency) of revenues over (under) expenditures	\$ -	-	-	-	-	-	(86,032)	(86,032)	-	-	806	806	1,607,947	787,288	1,892,917	1,105,629
Fund balances at July 1, 2015			-				1,275,326				173,180				7,188,474	
Fund balances at June 30, 2016		\$ -				\$ 1,189,294				\$ 173,986				\$ 9,081,391		

(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, 2016

	Solid Waste				Wastewater				Animal Shelter				Totals			
	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:																
Local	\$ -	-	-	-	-	-	-	-	1,019,904	1,019,904	1,019,903	(1)	1,019,904	1,019,904	1,019,903	(1)
Virginia	26,500	26,500	27,411	911	-	-	-	-	-	-	-	-	15,916,442	16,611,086	16,611,997	911
Charges for services	14,671,500	14,671,500	14,450,733	(220,767)	21,484,000	21,484,000	20,696,742	(787,258)	1,012,096	1,012,096	99,799	(912,297)	58,803,655	59,203,655	54,656,679	(4,546,976)
Sale of Property	-	-	-	-	-	-	-	-	-	-	-	-	15,000	15,000	850	(14,150)
Interest and rents	-	-	2,577	2,577	-	-	-	-	-	-	-	-	177,577	177,577	246,321	68,744
Miscellaneous	8,000	8,000	4,402	(3,598)	-	-	-	-	-	-	760	760	8,074	8,074	5,162	(2,912)
Total revenues	<u>14,706,000</u>	<u>14,706,000</u>	<u>14,485,123</u>	<u>(220,877)</u>	<u>21,484,000</u>	<u>21,484,000</u>	<u>20,696,742</u>	<u>(787,258)</u>	<u>2,032,000</u>	<u>2,032,000</u>	<u>1,120,462</u>	<u>(911,538)</u>	<u>75,940,652</u>	<u>77,035,296</u>	<u>72,540,912</u>	<u>(4,494,384)</u>
Expenditures:																
Current:																
General government	-	-	-	-	-	-	-	-	-	-	-	-	151,600	151,600	119,063	32,537
Public works	13,728,576	13,835,343	12,455,115	1,380,228	14,802,178	16,012,865	13,450,110	2,562,755	-	-	-	-	60,423,425	63,656,182	56,076,306	7,579,876
Parks, recreation, and culture	-	-	-	-	-	-	-	-	2,032,000	2,032,000	1,614,932	417,068	2,032,000	2,032,000	1,614,932	417,068
Community development	-	-	-	-	-	-	-	-	-	-	-	-	171,600	171,600	245,916	(74,316)
Total expenditures	<u>13,728,576</u>	<u>13,835,343</u>	<u>12,455,115</u>	<u>1,380,228</u>	<u>14,802,178</u>	<u>16,012,865</u>	<u>13,450,110</u>	<u>2,562,755</u>	<u>2,032,000</u>	<u>2,032,000</u>	<u>1,614,932</u>	<u>417,068</u>	<u>62,778,625</u>	<u>66,011,382</u>	<u>58,056,217</u>	<u>7,955,165</u>
Transfers In	-	-	-	-	-	-	-	-	-	-	(912,097)	912,097	-	-	(912,097)	912,097
Transfers Out	<u>977,424</u>	<u>977,424</u>	<u>977,424</u>	<u>-</u>	<u>6,681,822</u>	<u>6,681,822</u>	<u>6,657,724</u>	<u>24,098</u>	<u>-</u>	<u>-</u>	<u>724,610</u>	<u>(724,610)</u>	<u>11,554,080</u>	<u>11,554,080</u>	<u>12,254,592</u>	<u>(700,512)</u>
Excess (deficiency) of revenues over (under) expenditures	\$ -	<u>(106,767)</u>	<u>1,052,584</u>	<u>1,159,351</u>	\$ -	<u>(1,210,687)</u>	<u>588,908</u>	<u>1,799,595</u>	-	-	<u>(306,983)</u>	<u>(306,983)</u>	<u>1,607,947</u>	<u>(530,166)</u>	<u>3,142,200</u>	<u>3,672,366</u>
Fund balances at June 30, 2015			<u>1,663,154</u>				<u>493,928</u>				<u>23,962</u>				<u>10,818,024</u>	
Fund balances at June 30, 2016			<u>\$ 2,715,738</u>				<u>\$ 1,082,836</u>				<u>\$ (283,021)</u>				<u>\$ 13,960,224</u>	

CITY OF NEWPORT NEWS, VIRGINIA
Debt Service Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
Year ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Intergovernmental - Local	\$ 12,146,827	12,146,827	12,146,827	—
Miscellaneous	—	—	53,887	53,887
Total revenues	<u>12,146,827</u>	<u>12,146,827</u>	<u>12,200,714</u>	<u>53,887</u>
Expenditures:				
Debt service payments	61,416,860	61,416,860	58,192,754	3,224,106
Total expenditures	<u>61,416,860</u>	<u>61,416,860</u>	<u>58,192,754</u>	<u>3,224,106</u>
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(49,270,033)</u>	<u>(49,270,033)</u>	(45,992,040)	<u>3,277,993</u>
Other financing sources:				
Transfers in			<u>46,176,852</u>	
Net changes in fund balances			184,812	
Fund balances at June 30, 2015			<u>1,738,973</u>	
Fund balances at June 30, 2016			\$ <u><u>1,923,785</u></u>	

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CITY OF NEWPORT NEWS, VIRGINIA

Combining Statement of Net Position

Non-Major Component Units

June 30, 2016

Assets	Peninsula Airport Commission	Economic and Industrial Development Authorities	Totals
Current Assets:			
Cash and cash equivalents	\$ 3,238,884	3,721,959	6,960,843
Restricted cash and investments	1,002,459	12,940,121	13,942,580
Receivables:			
Accounts	537,031	177,489	714,520
Loans	1,156,494	—	1,156,494
Newport News Capital Fund Revolving Loan Program	—	96,729	96,729
Inventories	63,141	—	63,141
Other current assets	132,248	1,060,504	1,192,752
Total current assets	<u>6,130,257</u>	<u>17,996,802</u>	<u>24,127,059</u>
Restricted cash and cash equivalents	1,362,413	2,003,008	3,365,421
Deferred project costs	131,154	—	131,154
Receivables:			
Loans	—	1,139,968	1,139,968
Notes	—	3,037,590	3,037,590
Accounts, Notes & Grants	—	5,284,494	5,284,494
Land held for lease or resale	—	30,176,588	30,176,588
Property, plant and equipment:			
Land	6,604,658	—	6,604,658
Construction in progress	5,945,414	12,298,009	18,243,423
Infrastructure	—	2,543,500	2,543,500
Buildings	—	202,153,256	202,153,256
Improvements	—	14,327,640	14,327,640
Airfield	90,343,447	—	90,343,447
Terminal	73,613,294	—	73,613,294
Trailer park and rental units	1,548,885	—	1,548,885
Machinery and equipment	6,541,527	84,674	6,626,201
Accumulated depreciation	<u>(84,542,727)</u>	<u>(60,241,635)</u>	<u>(144,784,362)</u>
Total assets	<u>107,678,322</u>	<u>230,803,894</u>	<u>338,482,216</u>
Deferred Outflows			
Deferred pension contributions	259,970	—	259,970
Deferred swap	—	90,311	90,311
Deferred amount on refunding	—	6,252,879	6,252,879
Total deferred outflows	<u>259,970</u>	<u>6,343,190</u>	<u>6,603,160</u>
Liabilities			
Current Liabilities:			
Accounts payable	1,398,705	3,191,658	4,590,363
Accrued liabilities	495,682	154,190	649,872
Deposits	29,195	—	29,195
Due to Primary Government	—	383	383
Bonds and Notes payable - due within one year	447,596	11,025,041	11,472,637
Total current liabilities	<u>2,371,178</u>	<u>14,371,272</u>	<u>16,742,450</u>
Due to Primary Government	—	10,155,757	10,155,757
Bonds payable	8,470,817	89,564,789	98,035,606
Net pension liability	209,144	—	209,144
Other postemployment benefits liability	4,397,096	—	4,397,096
Total liabilities	<u>15,448,235</u>	<u>114,091,818</u>	<u>129,540,053</u>
Deferred Inflows			
Deferred pension investment experience	169,476	—	169,476
Unearned revenues	—	13,906	13,906
Total deferred inflows	<u>169,476</u>	<u>13,906</u>	<u>183,382</u>
Net Position			
Net investment in capital assets	91,136,085	79,956,396	171,092,481
Restricted for:			
Capital projects	1,362,413	13,432,069	14,794,482
Capital loans	—	1,511,060	1,511,060
Unrestricted	<u>(177,917)</u>	<u>28,141,835</u>	<u>27,963,918</u>
Total net position	<u>\$ 92,320,581</u>	<u>123,041,360</u>	<u>215,361,941</u>

CITY OF NEWPORT NEWS, VIRGINIA

Combining Statement of Revenues, Expenses and Changes in Net Position

Non-Major Component Units

Year ended June 30, 2016

	Peninsula Airport Commission	Economic and Industrial Development Authorities	Totals
Operating revenues:			
Charges for services	\$ 7,771,694	—	7,771,694
Property rentals	—	9,575,024	9,575,024
Parking contributions	—	181,645	181,645
Land sales	—	4,265,841	4,265,841
Intergovernmental-Regional Air Service Enhancement Fund	—	133,194	133,194
Intergovernmental-Parking Authority	—	692,334	692,334
Intergovernmental-Primary Government	—	26,409,271	26,409,271
Total operating revenues	<u>7,771,694</u>	<u>41,257,309</u>	<u>49,029,003</u>
Operating expenses:			
Cost of land sold	—	4,999,103	4,999,103
Personal services	3,850,259	655,672	4,505,931
Contractual services	1,814,726	5,841,294	7,656,020
Materials and supplies	648,969	496,250	1,145,219
Depreciation and amortization	7,223,480	5,092,454	12,315,934
Rental expenses	—	1,431,825	1,431,825
Miscellaneous	93,690	554,784	648,474
Total operating expenses	<u>13,631,124</u>	<u>19,071,382</u>	<u>32,702,506</u>
Operating income (loss)	<u>(5,859,430)</u>	<u>22,185,927</u>	<u>16,326,497</u>
Nonoperating revenues (expenses):			
Interest revenue	7,063	252,801	259,864
Bond and admin fee income	—	366,129	366,129
Interest expense	(421,375)	(4,816,936)	(5,238,311)
Letter of credit and trustee fees	—	(92,579)	(92,579)
Gain on disposal	2,051	—	2,051
Other revenues	—	64,286	64,286
OPEB expense	(425,042)	—	(425,042)
Loss on retirement of assets	—	(334)	(334)
Nonoperating expenses, net	<u>(837,303)</u>	<u>(4,226,633)</u>	<u>(5,063,936)</u>
Capital contributions, net	<u>7,091,355</u>	<u>—</u>	<u>7,091,355</u>
Change in net position	<u>394,622</u>	<u>17,959,294</u>	<u>18,353,916</u>
Net position at June 30, 2015	<u>91,925,959</u>	<u>105,082,066</u>	<u>197,008,025</u>
Net position at June 30, 2016	\$ <u><u>92,320,581</u></u>	<u><u>123,041,360</u></u>	<u><u>215,361,941</u></u>

CITY OF NEWPORT NEWS, VIRGINIA

Statement of Cash Flows
Non-Major Component Units
Year ended June 30, 2016

	Peninsula Airport Commission	Economic and Industrial Development Authorities	Totals
Cash flows from operating activities:			
Receipts from customers	\$ 7,777,529	37,217,533	44,995,062
Receipts from land sales and new loans, net of settlement charges	-	4,433,445	4,433,445
Payments to suppliers	(1,660,688)	(10,746,488)	(12,407,176)
Payments to employees	(3,850,259)	(655,672)	(4,505,931)
Net cash provided by operating activities	<u>2,266,582</u>	<u>30,248,818</u>	<u>32,515,400</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(5,836,863)	(12,203,205)	(18,040,068)
Capital contributions, net	6,116,361	-	6,116,361
Proceeds from sale of assets	6,400	-	6,400
Repayment and retirement of industrial revenue bonds and notes payable	(427,513)	(14,441,631)	(14,869,144)
Proceeds from issuance of debt	-	4,884,329	4,884,329
Proceeds from Primary Government	-	283,356	283,356
Payment to Primary Government	-	(283,356)	(283,356)
Interest paid	(421,375)	(4,816,936)	(5,238,311)
Cost of issuing bonds	-	532,753	532,753
Other expenses, net	1,089	(62,443)	(61,354)
Net cash used in capital and related financing activities	<u>(561,901)</u>	<u>(26,107,133)</u>	<u>(26,669,034)</u>
Cash flows from investing activities:			
Net investment in direct financing leases	-	80,987	80,987
Investment in certificates of deposit	(1,002,459)	-	(1,002,459)
Loans issued	-	(4,619,345)	-
Investment in future projects	(131,154)	-	(131,154)
Interest received	7,063	253,135	260,198
Decrease in restricted investments, net	(888,711)	-	(888,711)
Net cash provided by (used in) investing activities	<u>(2,015,261)</u>	<u>(4,285,223)</u>	<u>(1,681,139)</u>
Decrease in cash and cash equivalents	(310,580)	(143,538)	4,165,227
Cash, cash equivalents and restricted cash at beginning of year	<u>3,549,464</u>	<u>18,808,626</u>	<u>22,358,090</u>
Cash, cash equivalents and restricted cash at end of year	<u>\$ 3,238,884</u>	<u>18,665,088</u>	<u>26,523,317</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (5,859,430)	22,185,927	16,326,497
Adjustment to reconcile operating income (loss) to cash provided by operating activities:			
Depreciation	7,223,480	5,092,454	12,315,934
OPEB expense paid	(84,181)	-	(84,181)
Changes in assets and liabilities:			
Changes in land inventory	-	479,087	479,087
Mortgages receivable	-	167,604	167,604
Other receivables	5,835	120,866	126,701
Inventories	9,178	-	9,178
Prepaid assets	(74,212)	-	(74,212)
Accounts payable and accrued liabilities	1,106,857	2,223,612	3,330,469
Unearned revenues	-	(20,732)	(20,732)
Decrease in net pension asset/liability and related deferred inflows/outflows of resources	(60,945)	-	(60,945)
Net cash provided by operating activities	<u>\$ 2,266,582</u>	<u>30,248,818</u>	<u>32,515,400</u>
Supplemental disclosure:			
Noncash investing and financing activities:			
Contributed capital funded by accounts receivable	\$ 1,156,494	-	1,156,494

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CITY OF NEWPORT NEWS, VIRGINIA
Trust Funds
Combining Statement of Fiduciary Net Position
June 30, 2016

	<u>Line of Duty</u>	<u>Pension</u>	<u>OPEB</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 2,591,331	\$ 9,630,771	\$ 2,614,897	\$ 14,836,999
Cash and cash equivalents with trustee	-	26,294,158	183,625	26,477,783
Investments, at market value:				
Corporate and government bonds	-	111,128,806	-	111,128,806
Domestic stocks	-	424,411,200	-	424,411,200
Domestic mutual funds	-	-	21,439,933	21,439,933
International stocks	-	93,901,194	-	93,901,194
International mutual funds	-	29,622,557	3,790,615	33,413,172
Private equities	-	20,452,091	-	20,452,091
Real estate and timber	-	102,647,718	-	102,647,718
Receivable from other components	-	-	323,478	323,478
Sales receivable	-	3,596,147	-	3,596,147
Claim Fluctuation Reserve (Anthem):	-	-	1,753,091	1,753,091
Total assets	<u>2,591,331</u>	<u>821,684,642</u>	<u>30,105,639</u>	<u>854,381,612</u>
Liabilities				
Accounts payable	50,867	163,939	1,721,578	1,936,384
Payable to City	-	3,029,750	922,210	3,951,960
Accrued vacation	-	44,070	-	44,070
Purchases payable	-	2,788,185	-	2,788,185
Total liabilities	<u>50,867</u>	<u>6,025,944</u>	<u>2,643,788</u>	<u>8,720,599</u>
Net Position				
Assets held in trust:				
Restricted for pension benefits	-	815,658,698	27,461,851	843,120,549
Restricted	<u>2,540,464</u>	<u>-</u>	<u>-</u>	<u>2,540,464</u>
Total net position	<u>\$ 2,540,464</u>	<u>\$ 815,658,698</u>	<u>\$ 27,461,851</u>	<u>\$ 845,661,013</u>

CITY OF NEWPORT NEWS, VIRGINIA
Trust Funds
Combining Statement of Changes in Fiduciary Net Position
Year ended June 30, 2016

	<u>Line of Duty</u>	<u>Pension</u>	<u>OPEB</u>	<u>Total</u>
Additions:				
Employer Contributions:				
City General Fund	\$ 2,922,719	\$ 28,166,706	\$ 7,791,992	\$ 38,881,417
Waterworks Fund	-	3,150,717	1,103,452	4,254,169
School Operating Fund	-	7,688,476	-	7,688,476
Employee Contributions:				
City General Fund	-	4,849,357	-	4,849,357
Waterworks Fund	-	626,246	-	626,246
School Operating Fund	-	712,943	-	712,943
Other Contributions:				
Income from Leave Exchange	-	147,558	-	147,558
Employee Buy-back	-	80,032	-	80,032
Total contributions	<u>2,922,719</u>	<u>45,422,035</u>	<u>8,895,444</u>	<u>57,240,198</u>
Investment income:				
Net depreciation - bonds	-	(1,320,031)	(1,570,436)	(2,890,467)
Net depreciation - stocks	-	(24,457,417)	-	(24,457,417)
Interest	1,609	3,367,486	5,885	3,374,980
Dividends	-	10,782,305	475,025	11,257,330
Real estate operating income, net	-	7,516,167	-	7,516,167
Commission recapture	-	44,556	-	44,556
Other investment income	-	-	41,047	41,047
Total investment gain (loss)	<u>1,609</u>	<u>(4,066,934)</u>	<u>(1,048,479)</u>	<u>(5,113,804)</u>
Less investment expenses:	-	(3,398,888)	(74,509)	(3,473,397)
Net investment gain (loss)	<u>1,609</u>	<u>(7,465,822)</u>	<u>(1,122,988)</u>	<u>(8,587,201)</u>
Total additions	<u>2,924,328</u>	<u>37,956,213</u>	<u>7,772,456</u>	<u>48,652,997</u>
Deductions:				
Benefits paid to participants	333,046	71,929,052	7,694,156	79,956,254
Refunds of member contributions	-	72,077	-	72,077
Administrative expenses	9,725	921,181	75,454	1,006,360
Portability Expense	-	15,440	-	15,440
Total deductions	<u>342,771</u>	<u>72,937,750</u>	<u>7,769,610</u>	<u>81,050,131</u>
Change in net position	<u>2,581,557</u>	<u>(34,981,537)</u>	<u>2,846</u>	<u>(32,397,134)</u>
Net position held in trust for pension benefits at June 30, 2015	(41,093)	850,640,235	27,459,005	878,058,147
Net position held in trust for pension benefits at June 30, 2016	<u>\$ 2,540,464</u>	<u>\$ 815,658,698</u>	<u>\$ 27,461,851</u>	<u>\$ 845,661,013</u>

See accompanying notes to basic financial statements

CITY OF NEWPORT NEWS, VIRGINIA
Combining Statement of Changes in Assets and Liabilities
Agency Funds
Year Ended June 30, 2016

GPWDC	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
Assets:				
Cash and cash equivalents	\$ —	4,107,276	4,107,276	—
Accounts receivable	721,454	885,585	402,184	1,204,855
Total assets	\$ 721,454	4,992,861	4,509,460	1,204,855
Liabilities:				
Accounts payable	\$ 449,973	2,473,038	2,452,398	470,613
Due to other agencies	271,481	462,766	5	734,242
Total liabilities	\$ 721,454	2,935,804	2,452,403	1,204,855
 Other Agency Funds				
Assets:				
Cash and cash equivalents	\$ 5,057,649	20,296,154	19,795,047	5,558,756
Accounts receivable	2,674,292	23,687,086	22,581,149	3,780,229
Inventory	2,784	—	2,784	—
Total assets	\$ 7,734,725	43,983,240	42,378,980	9,338,985
Liabilities:				
Accounts payable	\$ 939,298	19,728,835	19,502,468	1,165,665
Due to other governments	4,332,169	1,629,612	282,468	5,679,313
Due to other agencies	2,463,258	280,746	249,997	2,494,007
Total liabilities	\$ 7,734,725	21,639,193	20,034,933	9,338,985
 Total - Agency Funds				
Assets:				
Cash and cash equivalents	\$ 5,057,649	24,403,430	23,902,323	5,558,756
Accounts receivable	3,395,746	24,572,671	22,983,333	4,985,084
Inventory	2,784	—	2,784	—
Total assets	\$ 8,456,179	48,976,101	46,888,440	10,543,840
Liabilities:				
Accounts payable	\$ 1,389,271	22,201,873	21,954,866	1,636,278
Due to other governments	4,332,169	1,629,612	282,468	5,679,313
Due to other agencies	2,734,739	743,512	250,002	3,228,249
Total liabilities	\$ 8,456,179	24,574,997	22,487,336	10,543,840

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STATISTICAL SECTION

This part of the City's 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									
	2016	2015**	2014	2013	2012	2011	2010	2009	2008	2007
Governmental activities:										
Net investment in capital assets	\$ 384,685,456	\$ 362,541,053	\$ 344,253,405	\$ 331,677,129	\$ 311,394,219	\$ 290,455,293	\$ 251,724,446	\$ 228,275,222	\$ 223,305,188	\$ 190,926,170
Restricted	19,333,167	15,441,843	11,105,034	9,396,408	10,732,493	1,182,184	1,034,412	1,517,751	1,853,588	2,234,557
Unrestricted	(202,853,172)	(195,964,811)	(169,541,405)	(165,087,764)	(141,023,569)	(104,156,300)	(59,047,595)	(46,605,508)	(37,333,216)	(3,441,801)
Total governmental activities net position	<u>\$ 201,165,451</u>	<u>\$ 182,018,085</u>	<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>
Business-type activities:										
Net investment in capital assets	\$ 299,063,108	\$ 258,246,361	\$ 243,541,418	\$ 232,313,434	\$ 257,644,908	\$ 251,759,910	\$ 238,441,047	\$ 276,666,222	\$ 277,770,877	\$ 269,150,510
Restricted	-	26,355,721	28,007,541	30,427,669	-	-	-	-	-	-
Unrestricted	3,558,442	3,729,639	27,165,354	21,103,436	19,485,138	23,521,844	31,828,423	41,643,472	29,287,711	24,572,102
Total business-type activities net position *	<u>\$ 302,621,550</u>	<u>\$ 288,331,721</u>	<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>
Primary Government:										
Net investment in capital assets	\$ 683,748,564	\$ 620,787,414	\$ 587,794,823	\$ 563,990,563	\$ 569,039,127	\$ 542,215,203	\$ 490,165,493	\$ 504,941,444	\$ 501,076,065	\$ 460,076,680
Restricted	19,333,167	41,797,564	39,112,575	39,824,077	10,732,493	1,182,184	1,034,412	1,517,751	1,853,588	2,234,557
Unrestricted (deficit)	(199,294,730)	(192,235,172)	(142,376,051)	(143,984,328)	(121,538,431)	(80,634,456)	(27,219,172)	(4,962,036)	(8,045,505)	21,130,301
Total Primary Government net position	<u>\$ 503,787,001</u>	<u>\$ 470,349,806</u>	<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>

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).

** Implementation of GASB 68

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

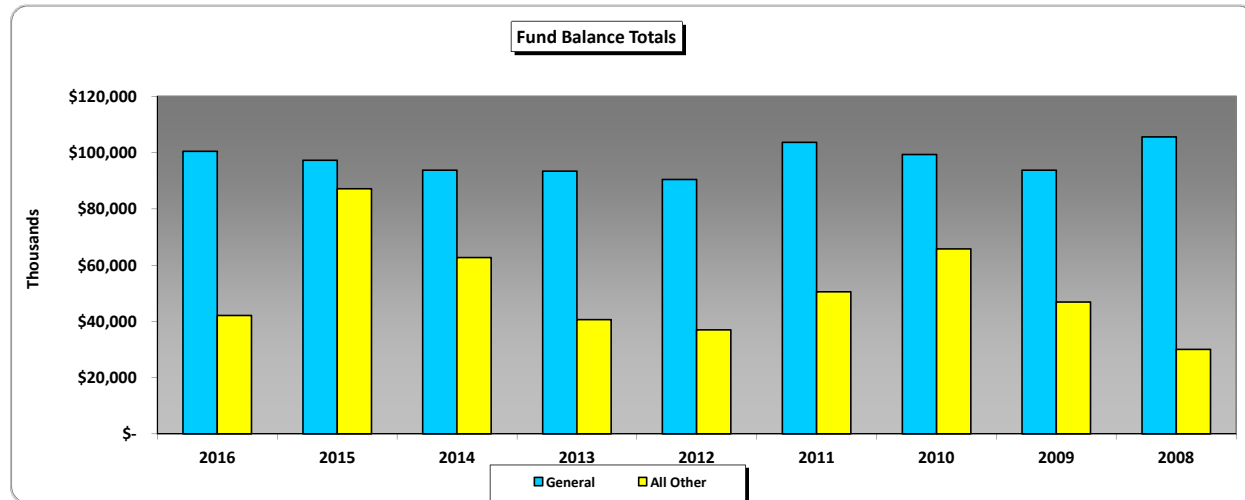
	Fiscal Year									
	2016	2015**	2014	2013	2012	2011	2009	2008	2007	2006
Program revenues										
Governmental activities:										
Charges for services:										
Public works	\$ 54,559,279	\$ 52,316,287	\$ 45,729,958	\$ 40,889,684	\$ 37,095,768	\$ 36,800,694	\$ 37,744,481	\$ 34,526,097	\$ 30,513,564	\$ 28,057,816
All others	285,606,608	29,469,594	27,341,075	27,279,880	26,264,076	25,854,740	25,805,742	26,406,149	25,760,135	25,941,895
Operating grants and contributions	41,835,794	41,537,105	41,230,144	39,249,011	41,429,302	44,986,270	42,704,554	44,966,813	45,835,149	44,078,633
Capital grants and contributions	9,891,763	9,852,965	8,261,793	6,482,329	4,966,923	3,156,118	4,740,959	1,962,681	2,140,343	2,771,153
Total governmental activities program revenues	391,893,444	133,175,951	122,562,970	113,900,904	109,756,069	110,797,822	110,995,736	107,861,740	104,249,191	100,849,497
Business-type activities:										
Charges for services	89,992,744	88,819,826	85,580,834	76,099,474	73,337,822	74,497,015	72,719,343	73,817,176	76,003,756	71,908,595
Operating/Capital grants and contributions	3,352,599	2,434,032	2,327,993	2,811,556	3,475,356	3,677,892	5,381,669	8,332,219	3,782,758	3,530,826
Total business-type activities program revenues	93,345,343	91,253,858	87,908,827	78,911,030	76,813,178	78,174,907	78,101,012	82,149,395	79,786,514	75,439,421
Total Primary Government program revenues	485,238,787	224,429,809	210,471,797	192,811,934	186,569,247	188,972,729	189,096,748	190,011,135	184,035,705	176,288,918
Expenses										
Governmental activities:										
General government	105,287,988	88,460,077	98,295,537	85,544,610	53,687,583	41,072,050	56,496,116	67,006,531	54,904,104	54,577,481
Judicial administration	7,000,968	6,177,348	6,801,427	6,779,007	7,796,103	7,675,395	7,061,964	7,042,239	7,269,926	6,919,927
Public safety	117,228,275	103,551,180	116,029,097	113,305,100	131,544,707	129,661,963	119,642,698	120,240,436	119,019,088	112,089,213
Public works	77,766,098	65,340,573	72,201,809	70,293,521	76,076,207	77,288,468	71,950,527	70,635,586	70,571,291	66,258,073
Health and welfare	41,363,323	35,887,985	40,894,433	42,283,290	49,131,969	54,114,507	52,805,082	56,468,567	58,563,411	56,061,131
Education	121,829,209	147,634,659	119,743,781	116,592,925	117,566,704	118,376,318	119,956,981	116,528,527	114,275,568	117,460,703
Parks, recreation and culture	32,294,586	29,206,334	32,804,044	34,050,686	34,690,901	34,385,246	32,614,571	34,409,781	36,183,209	32,557,355
Community development	11,490,635	6,792,684	9,764,564	11,194,312	8,743,779	12,678,704	10,369,291	8,832,458	10,623,457	8,700,790
Interest and other fiscal charges	20,545,591	20,497,054	20,607,931	22,927,201	25,545,336	30,258,101	23,923,629	25,487,370	24,118,788	21,149,858
Total governmental activities expenses	534,806,673	503,547,894	517,142,623	502,970,652	504,783,289	505,510,752	494,820,859	506,651,495	495,528,842	475,774,531
Business-type activities:										
Public utilities	69,011,682	63,807,973	62,911,823	62,502,189	65,287,629	63,397,723	64,078,572	62,684,897	59,439,084	54,357,032
Parking Authority *	-	-	-	-	-	-	-	-	-	-
Total business-type activities expenses	69,011,682	63,807,973	62,911,823	62,502,189	65,287,629	63,397,723	64,078,572	62,684,897	59,439,084	54,357,032
Total Primary Government expenses	603,818,355	567,355,867	580,054,446	565,472,841	570,070,918	568,908,475	558,899,431	569,336,392	554,967,926	530,131,563
Net Revenue/(Expenses)										
Governmental activities	(399,700,615)	(370,371,943)	(394,579,653)	(389,069,748)	(395,027,220)	(394,712,930)	(383,825,123)	(398,789,755)	(391,279,651)	(374,925,034)
Business-type activities	24,333,661	27,445,885	24,997,004	16,408,841	11,525,549	14,777,184	14,022,440	19,464,498	20,347,430	21,082,389
Total Primary Government	(375,366,954)	(342,926,058)	(369,582,649)	(372,660,907)	(383,501,671)	(379,935,746)	(369,802,683)	(379,325,257)	(370,932,221)	(353,842,645)
General revenues and Other Changes in Net Assets										
Governmental activities:										
Property taxes	256,787,386	250,847,834	246,119,180	229,811,554	229,194,920	230,980,102	236,993,370	233,735,214	219,867,771	207,827,846
Other taxes	102,082,792	100,362,448	96,418,092	96,537,561	91,744,426	89,063,340	88,595,948	89,624,744	93,161,528	90,412,582
Unrestricted grants and contributions	43,217,511	43,235,474	42,216,776	41,481,654	47,106,347	48,209,536	48,630,187	48,993,988	49,350,467	48,308,625
Investment earnings	2,688,086	2,438,265	2,293,272	2,328,310	2,270,634	2,395,569	2,663,324	3,596,647	6,169,470	6,465,913
Miscellaneous	9,711,606	10,542,858	9,358,360	3,902,299	8,441,859	7,834,297	7,466,092	8,201,067	10,837,049	11,087,567
Transfers	9,500,000	9,500,000	9,391,000	9,891,000	9,891,000	10,000,000	10,000,000	10,000,000	10,000,000	9,110,489
Total governmental activities	423,987,381	416,926,879	405,796,680	383,952,378	388,649,186	388,482,844	394,348,921	394,151,660	389,386,285	373,213,022
Business-type activities:										
Investment earnings	276,491	1,028,758	153,241	196,652	213,743	235,100	549,737	1,940,465	2,988,546	1,926,084
Extraordinary loss	-	-	-	-	-	-	(52,612,401)	-	-	-
Miscellaneous	958,210	962,131	-	-	-	-	-	-	-	-
Transfers	(9,500,000)	(9,500,000)	(9,391,000)	(9,891,000)	(9,891,000)	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)	(9,110,489)
Total business-type activities	(8,265,299)	(7,509,111)	(9,237,759)	(9,694,348)	(9,677,257)	(9,764,900)	(62,062,664)	(8,059,535)	(7,011,454)	(7,184,405)
Total Primary Government	415,722,082	409,417,768	396,558,921	374,258,030	378,971,929	378,717,944	332,286,257	386,092,125	382,374,831	366,028,617
Changes in Net Position										
Governmental activities	24,286,766	46,554,936	11,217,027	(5,117,370)	(6,378,034)	(6,230,086)	10,523,798	(4,638,095)	(1,893,366)	(1,712,012)
Business-type activities	16,068,362	19,936,774	15,759,245	6,714,493	1,848,292	5,012,284	(48,040,224)	11,404,963	13,335,976	13,897,984
Total Primary Government	\$ 40,355,128	\$ 66,491,710	\$ 26,976,272	\$ 1,597,123	\$ (4,529,742)	\$ (1,217,802)	\$ (37,516,426)	\$ 6,766,868	\$ 11,442,610	\$ 12,185,972

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).
 ** Implementation of GASB 68

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

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
General fund										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,305,988	\$ 5,194,291	\$ 6,009,589	\$ 6,791,817
Unreserved	-	-	-	-	-	-	97,366,646	94,164,397	87,703,448	98,820,178
Nonspendable	11,436,689	11,541,956	11,370,286	12,862,783	15,412,699	15,711,917	-	-	-	-
Restricted	224,814	133,554	90,649	563,863	2,013,986	2,011,665	-	-	-	-
Assigned	31,855,250	39,089,271	38,415,687	34,939,767	34,656,608	31,290,680	-	-	-	-
Unassigned	51,054,853	49,692,460	47,366,583	45,353,317	41,364,679	41,390,600	-	-	-	-
Total general fund	\$ 94,571,606	\$ 100,457,241	\$ 97,243,205	\$ 93,719,730	\$ 93,447,972	\$ 90,404,862	\$ 103,672,634	\$ 99,358,688	\$ 93,713,037	\$ 105,611,995
All other governmental funds										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,170,639	\$ 11,977,232	\$ 14,741,065	\$ 12,333,840
Unreserved, reported in:										
Special revenue fund	-	-	-	-	-	-	12,372,862	15,126,615	10,474,287	9,267,465
Debt service fund	-	-	-	-	-	-	6,511,346	1,258,059	2,695,240	1,306,632
Capital project fund	-	-	-	-	-	-	13,290,298	10,927,505	11,555,870	9,492,210
Bond fund	-	-	-	-	-	-	1,144,480	26,477,781	7,393,868	(2,354,461)
Restricted	37,764,123	30,414,816	56,269,407	32,442,547	24,773,693	28,210,329	-	-	-	-
Committed	20,806,270	32,354,805	30,841,880	30,148,309	32,951,026	40,772,110	-	-	-	-
Assigned	-	-	-	92,000	-	30,000	-	-	-	-
Unassigned	(429,701)	(20,674,947)	-	-	(17,129,925)	(32,086,837)	-	-	-	-
Total all other governmental funds	\$ 58,140,692	\$ 42,094,674	\$ 87,111,287	\$ 62,682,856	\$ 40,594,794	\$ 36,925,602	\$ 50,489,625	\$ 65,767,192	\$ 46,860,330	\$ 30,045,686

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									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Revenues										
General property taxes	\$256,442	\$248,297	\$245,531	\$228,025	\$229,353	\$230,860	\$236,184	\$233,632	\$219,316	\$208,128
Other local taxes	102,083	100,362	96,418	96,538	91,744	89,063	88,596	89,625	93,162	90,413
Licenses and permits	3,413	3,866	3,433	2,803	3,645	3,372	2,846	3,170	3,672	3,315
Fines and forfeitures	1,517	2,247	2,599	2,984	2,697	2,332	2,213	1,981	1,881	1,826
Interest and rents	2,669	2,425	2,285	2,322	2,264	2,391	2,653	3,579	6,147	6,437
Charges for services	76,208	73,593	64,421	59,179	54,895	54,057	55,523	51,003	46,403	44,484
Recovered costs	5,654	5,946	6,051	6,007	5,768	6,267	5,814	7,948	8,718	7,690
Intergovernmental	92,433	92,649	90,606	86,344	93,076	94,980	92,883	95,048	96,745	94,477
Miscellaneous	4,211	4,348	3,596	3,810	3,034	3,476	3,348	3,821	4,964	5,411
Total revenues	544,630	533,733	514,940	488,012	486,476	486,798	490,060	489,807	481,008	462,181
Expenditures										
General government	94,516	83,730	77,930	76,785	50,109	49,331	51,254	51,921	49,368	48,637
Judicial administration	6,442	6,383	6,129	5,861	6,733	6,592	6,236	6,148	6,218	5,910
Public safety	113,199	111,415	107,104	100,419	116,183	114,075	108,877	108,467	105,008	99,472
Public works	67,487	61,926	59,511	55,527	60,806	62,152	58,764	57,178	56,174	51,798
Health and welfare	41,461	40,244	39,113	38,807	44,654	48,918	49,309	52,154	52,892	50,487
Education	120,300	140,727	117,890	119,362	123,007	118,262	119,581	119,088	121,770	121,050
Parks recreation culture	28,396	27,984	26,637	26,829	27,421	26,923	25,976	27,082	28,174	26,384
Community development	10,974	6,990	8,811	9,778	7,429	10,852	8,959	7,439	8,899	7,140
Debt service:										
Principal	38,000	38,687	38,295	35,123	36,792	33,675	33,444	34,422	35,742	31,333
Interest	20,670	19,499	21,690	22,426	25,424	28,100	24,356	26,054	24,792	21,861
Capital outlay	56,311	47,865	45,878	38,271	37,883	27,791	27,186	21,858	33,615	37,535
Bond issuance cost	-	-	-	-	-	-	-	-	-	370
Total expenditures	597,756	585,450	548,988	529,188	536,441	526,671	513,942	511,811	522,651	501,977
Deficiency of revenues										
Under expenditures	(53,126)	(51,718)	(34,048)	(41,176)	(49,965)	(39,873)	(23,882)	(22,004)	(41,643)	(39,796)
Other Financing sources (Uses)										
Transfer In	70,403	73,313	69,806	64,854	63,980	87,189	69,587	66,217	78,707	63,120
Transfer Out	(60,903)	(63,398)	(60,415)	(54,963)	(54,089)	(77,189)	(59,587)	(56,217)	(68,707)	(54,010)
Payment to refund bonds	(39,614)	-	(64,867)	-	(76,685)	-	-	(136)	-	(22,380)
Premium on refunded bonds	6,728	-	7,464	-	7,756	-	-	663	1,716	3,666
Refund bonds proceeds	33,190	-	56,115	-	69,335	-	-	481	-	20,370
Bond and note proceeds	48,890	-	45,000	51,905	42,121	3,041	2,918	35,549	34,843	49,001
Premium on bonds issuance	4,592	-	8,897	5,698	4,259	-	-	-	-	-
Contribution to PAC	-	-	-	(3,958)	-	-	-	-	-	-
Total other financing sources (uses), net	63,286	9,915	62,000	63,536	56,677	13,041	12,918	46,557	46,559	59,767
Net change in fund balance	\$10,160	(\$41,803)	\$27,952	\$22,360	\$6,712	(\$26,832)	(\$10,964)	\$24,553	\$4,916	\$19,971
Debt service as a percentage of noncapital expenditures *	10.8%	10.8%	11.9%	11.7%	12.5%	12.4%	11.7%	12.3%	12.4%	11.5%

*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)

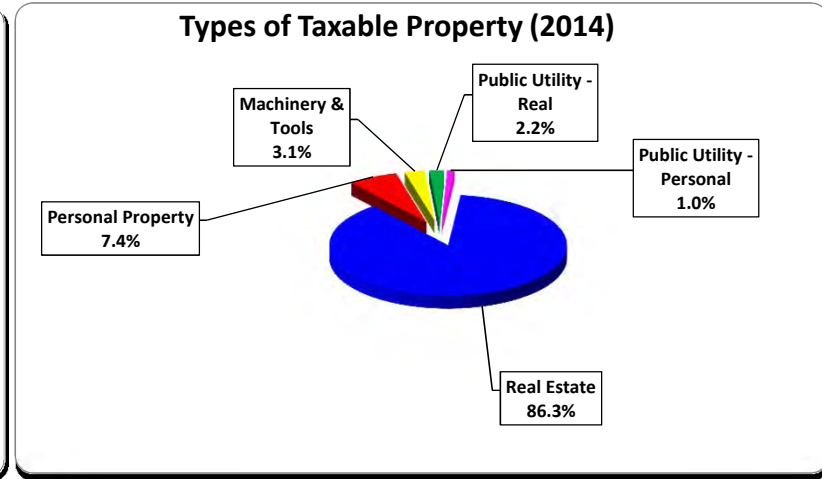
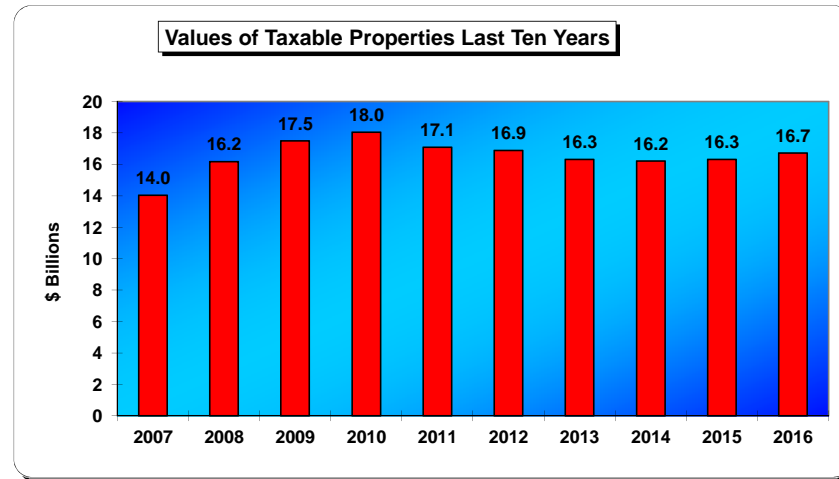
	Fiscal Year										% Change 2006-2015
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	
Property tax	\$256,787,386	\$250,847,834	\$246,119,180	\$229,811,554	\$229,194,920	\$230,980,102	\$236,183,979	\$233,631,532	\$219,315,976	\$208,128,176	23.4%
E911 service	701,894	722,381	637,060	596,242	699,378	729,711	737,734	708,725	571,027	1,078,375	-34.9%
Telecom sales	11,289,782	11,679,829	11,697,528	11,992,112	11,681,054	12,321,643	12,018,133	12,416,819	13,177,014	4,772,796	165.3%
Sales tax	23,601,270	23,390,029	22,426,753	22,920,353	22,022,527	21,206,724	20,862,730	21,930,591	23,572,320	23,276,742	1.4%
Utility tax	6,262,091	6,312,731	6,279,595	6,262,714	5,891,989	6,511,120	6,321,381	6,137,436	6,112,238	8,017,460	-21.9%
Cellular telephone tax	-	-	-	-	-	-	-	-	-	2,138,607	0.0%
Consumption tax	669,850	714,814	709,174	700,021	653,430	674,265	776,672	728,656	704,570	695,383	-3.7%
Business license tax	16,383,239	16,360,314	15,750,751	16,200,207	16,109,141	15,115,176	15,266,938	14,676,421	15,116,393	14,770,199	10.9%
Rental car tax	1,115,643	1,119,583	1,041,657	1,151,221	1,229,911	1,044,775	1,021,610	1,058,659	996,093	966,780	15.4%
Franchise license tax	-	-	-	-	-	-	-	-	-	890,920	0.0%
Cable television tax	-	-	-	-	-	-	-	-	-	1,225,349	0.0%
Motor vehicle license tax	4,096,782	4,009,795	4,103,933	3,876,035	3,917,451	3,880,996	3,922,803	3,905,814	3,531,053	3,578,087	14.5%
Bank stock tax	804,718	642,977	675,657	666,072	847,745	957,902	1,015,597	727,678	588,882	584,773	37.6%
Recordation and wills tax	1,490,565	1,340,624	1,265,779	1,370,840	1,407,159	1,065,889	1,263,938	1,461,537	2,219,287	2,120,046	-29.7%
Tobacco tax	4,808,217	4,949,954	5,102,091	5,228,287	4,799,234	4,269,564	4,160,343	4,119,169	4,205,798	4,406,514	9.1%
Hotel and motel room tax	4,297,160	4,013,332	3,178,730	3,008,260	3,191,992	3,064,515	2,969,053	3,130,281	3,454,926	3,386,331	26.9%
Restaurant food tax	25,551,404	24,136,927	22,873,051	22,082,728	18,835,979	17,767,348	17,765,937	18,074,235	18,348,254	17,943,384	42.4%
Amusement tax	929,005	872,557	665,301	482,469	457,436	453,712	493,079	548,722	563,673	560,836	65.6%
Tourism zone tax	81,172	96,601	11,032	-	-	-	-	-	-	-	100.0%
Total Taxes	\$358,870,178	\$351,210,282	\$342,537,272	\$326,349,115	\$320,939,346	\$320,043,442	\$324,779,927	\$323,256,275	\$312,477,504	\$298,540,758	20.2%

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			
2007	\$	15,141,893	\$	1,161,864	\$	352,403	\$	180,706	\$	(2,901,608)	\$	14,027,370	1.55	\$	16,928,978
2008		17,390,981		1,233,279		364,010		211,388		(3,157,425)		16,178,233	1.53		19,335,658
2009		19,011,429		1,195,193		397,899		250,995		(3,530,295)		17,488,713	1.51		21,019,008
2010		19,762,256		1,154,011		419,441		293,307		(3,753,027)		18,048,533	1.37		21,801,560
2011		18,600,158		1,165,494		438,747		326,889		(3,614,365)		17,090,031	1.40		20,704,396
2012		18,342,224		1,186,515		468,330		339,790		(3,622,298)		16,878,501	1.41		20,500,799
2013		17,744,690		1,221,798		486,090		333,266		(3,641,733)		16,307,403	1.45		19,949,136
2014		17,768,798		1,248,199		507,497		353,179		(3,826,649)		16,207,738	1.41		20,034,387
2015		17,979,237		1,263,012		531,235		352,226		(3,962,290)		16,319,157	1.40		20,281,447
2016		18,396,884		1,322,984		543,091		349,931		(4,053,925)		16,716,737	1.42		20,770,662

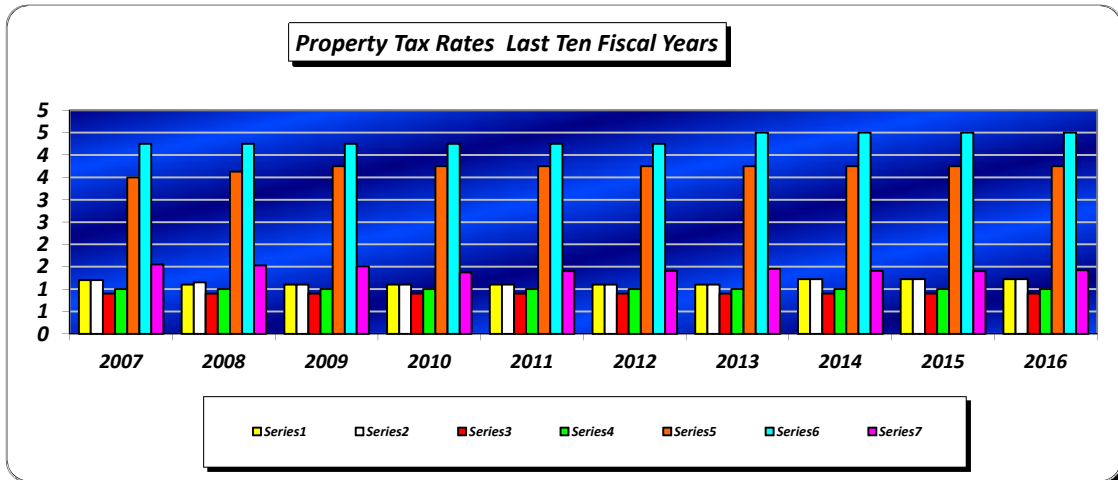
Source: City of Newport News Real Estate Assessors Office



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
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	1.1	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
2015	1.22	1.22	0.90	1.00	3.75	4.50	1.40
2016	1.22	1.22	0.90	1.00	3.75	4.50	1.42

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)**

	2016		2007	
	Taxes Due	Percentage	Taxes Due	Percentage
	based on Assessed Value	of Taxes Due	based on Assessed Value	of Taxes Due
Huntington Ingalls Incorporated *1	\$20,622	8.03%	\$12,559	7.64%
Virginia Electric & Power Company *5	\$5,283	2.06%	1,328	0.81%
Canon Virginia Inc *2	\$4,925	1.92%	1,550	0.94%
The Mariners Museum	\$2,791	1.09%	1,334	0.81%
Verizon Virginia LLC	\$2,216	0.86%	910	0.55%
PR Patrick Henry LLC *6	\$1,810	0.71%	1,407	0.86%
Continental Automotive Systems US Inc	\$1,731	0.67%	-	-
Virginia Natural Gas Inc	\$1,393	0.54%	322	0.20%
Dominion Terminal Associates *3	\$1,238	0.48%	962	0.59%
Kinder Morgan Operating LP	\$1,214	0.47%	348	0.21%
Cox Communications Hampton Roads LLC *8	\$911	0.35%	300	0.18%
Inland Western Newport News *9	\$848	0.33%	-	-
Cellco Partnership	\$821	0.32%	-	-
Patrick Henry Hospital (Warwick Forest)	\$558	0.22%	-	-
Bottling Group LLC *7	\$544	0.21%	-	-
Oyster Point Residential LLC	\$512	0.20%	-	-
Ferguson Enterprises Corp	\$485	0.19%	308	0.19%
Meridian Parkside Apartments LLC	\$450	0.18%	-	-
Liebherr Mining & Construction Equipment Inc	\$449	0.17%	-	-
1552 LLC	\$405	0.16%	-	-
Harbours LLC *4	-	-	355	0.22%
Siemens - Bendix Automotive	-	-	1,511	0.92%
Shorewood Packaging Corp Of Va	-	-	563	0.34%
Chesapeake Investors LLC	-	-	303	0.18%
Newport-Oxford Associates Ltd	-	-	399	0.24%
Mountain Ventures / Jefferson Value Assoc	-	-	687	0.42%
United Dominion Realty Trust	-	-	527	0.32%
Newport News - Oyster Point Hotel LLC	-	-	373	0.23%
Hewlett Packard Financial Services Inc	-	-	366	0.22%
Total	\$49,206	19.17%	\$26,412	16.07%

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 Dominion VA Power & before that, Virginia Electric & Power Company

*6 Previously Crown American Financing

*7 Previously Siemens Financial Services

*8 Previously Pepsi-Cola Bottling Group

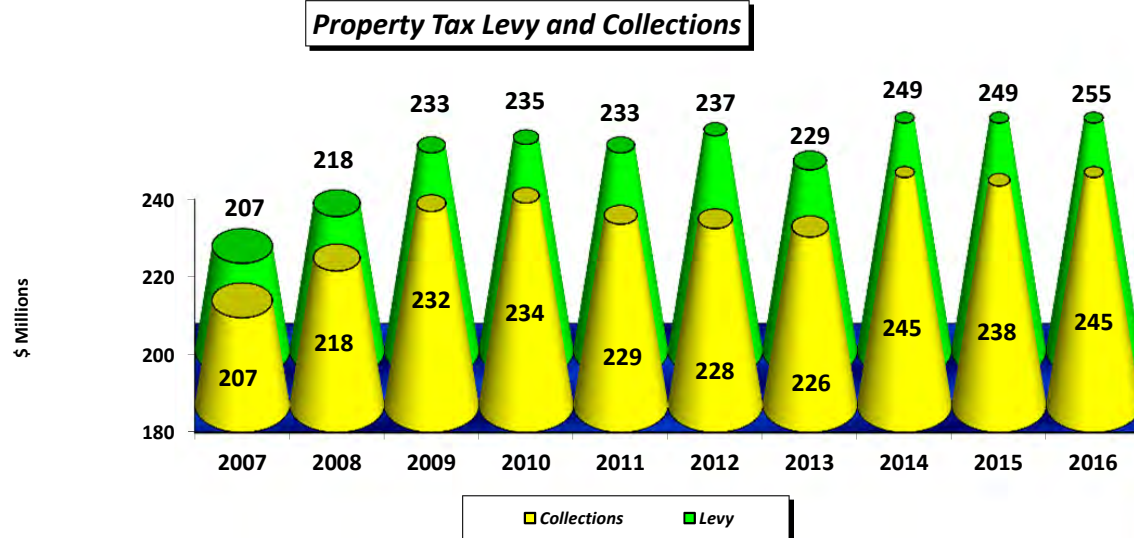
*9 Previously Inland Western Newport News

*10 Previously Cox Communications Hampton Roads Inc and previously Cox Communications

*11 Previously Liebherr Mining & Construction Equipment Inc

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
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	99.7%
2010	235,225	227,030	96.5%	-	6,476	233,506	99.3%
2011	233,380	222,804	95.5%	-	6,115	228,919	98.1%
2012	236,875	220,914	93.3%	-	7,550	228,464	96.4%
2013	229,071	218,911	95.6%	-	7,267	226,178	98.7%
2014	248,820	236,734	95.1%	-	8,340	245,074	98.5%
2015	248,645	238,149	95.8%	-	9199	247,348	99.5%
2016	255,057	245,186	96.1%	-	Not Available	245,186	96.1%

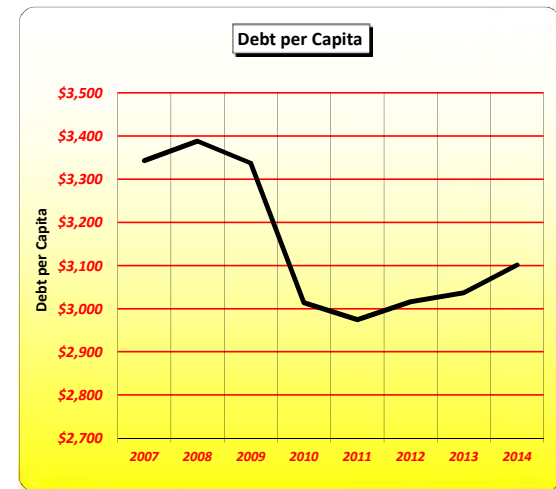
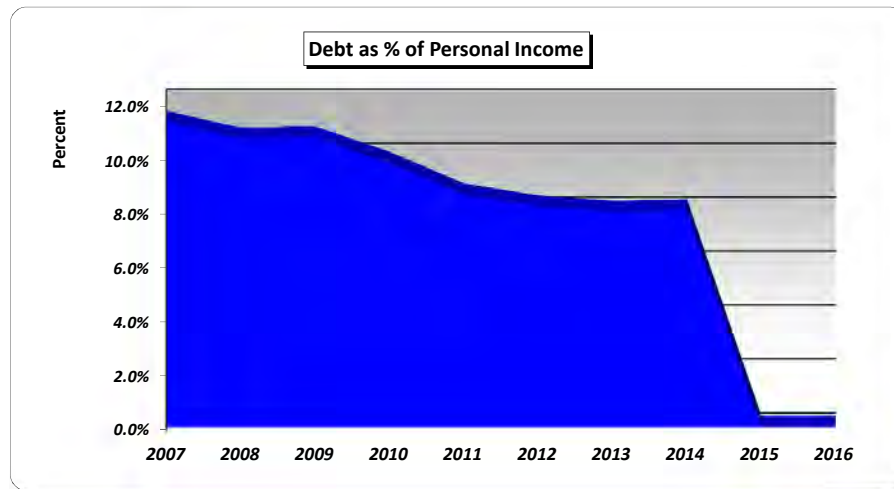


City of Newport News, Virginia
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(Dollars in thousands, except per capita)

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Population	182,385	182,965	182,020	180,726	180,719	180,719	193,172	193,212	187,200	186,000
Personal Income	\$ -	\$ -	\$ 7,045,829	\$ 6,891,612	\$ 6,672,878	\$ 6,241,927	\$ 5,946,073	\$ 6,011,449	\$ 5,941,588	\$ 5,500,739
Governmental Activities:										
General Obligation Bonds*	389,018	373,923	415,933	388,206	366,401	353,639	383,753	413,482	411,159	411,567
Guaranty of Peninsula Airport Bonds	-	-	-	-	4,180	4,490	4,780	5,055	5,315	5,565
Literary Fund	4,619	5,038	5,458	5,878	6,298	6,717	7,237	8,034	8,830	9,321
Capital Leases	320	434	571	-	-	-	-	388	53	140
Land Lease Payable*	509	742	961	1,167	1,362	-	-	-	-	-
Land Purchase Payable*	-	-	142	600	633	-	-	-	-	-
Business-type Activities:										
Public Utility Bonds*	113,508	127,043	141,464	153,005	166,107	172,695	186,330	217,720	208,855	195,155
Total Primary Government	<u>\$ 507,974</u>	<u>\$ 507,180</u>	<u>\$ 564,529</u>	<u>\$ 548,856</u>	<u>\$ 544,981</u>	<u>\$ 537,541</u>	<u>\$ 582,100</u>	<u>\$ 644,679</u>	<u>\$ 634,212</u>	<u>\$ 621,748</u>
Percentage of Personal Income	-	-	8.0%	8.0%	8.2%	8.6%	9.8%	10.7%	10.7%	11.3%
Net Bonded Debt Per Capita	<u>\$ 2,785</u>	<u>\$ 2,772</u>	<u>\$ 3,101</u>	<u>\$ 3,037</u>	<u>\$ 3,016</u>	<u>\$ 2,974</u>	<u>\$ 3,013</u>	<u>\$ 3,337</u>	<u>\$ 3,388</u>	<u>\$ 3,343</u>

Note: Population figures are derived as follows: 2007 - 2008 City estimates, 2009 - 2016 Census Bureau estimates.

Note: Personal Income figures were not available for FY2015 & FY2016.

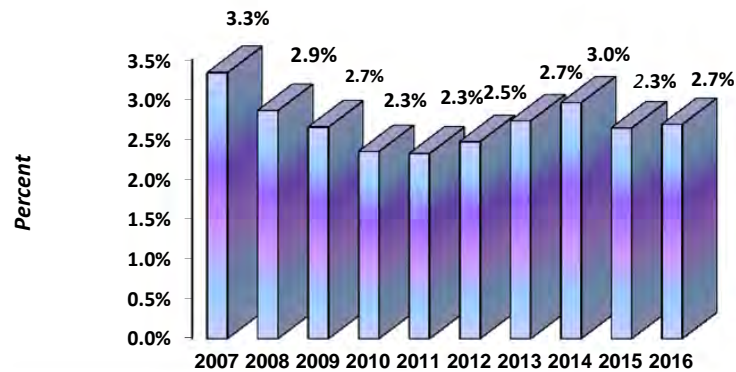


City of Newport News, Virginia
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(in thousands of dollars)

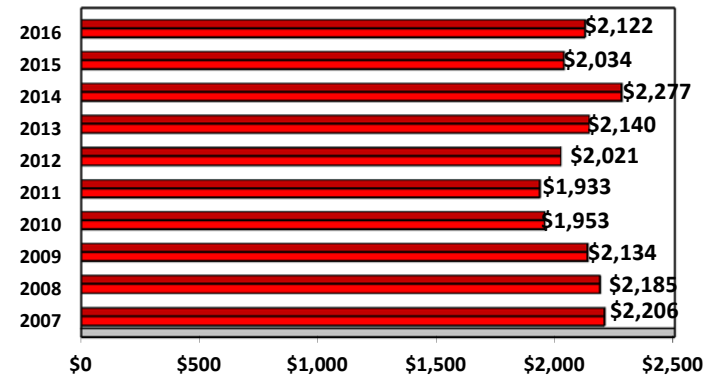
Fiscal Year	Population	Assessed Value of Real Property	General Obligation Bonds	Less Debt Service	Net Bonded Debt	Net Bonded Debt as % of Assessed Valuation	Net Bonded Debt Per Capita
2007	186,000	\$ 12,293,454	\$ 411,567	\$ 1,307	\$ 410,260	3.3%	\$ 2,206
2008	187,200	14,286,003	411,159	2,139	409,020	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
2015	182,965	14,072,307	373,923	1,739	372,184	2.6%	2,034
2016	182,385	14,393,093	389,018	1,924	387,094	2.7%	2,122

Note: Population figures are derived as follows: 2007 - 2008 City estimates, 2009 - 2016 Census Bureau estimates.

Debt as % of Assessed Property Value

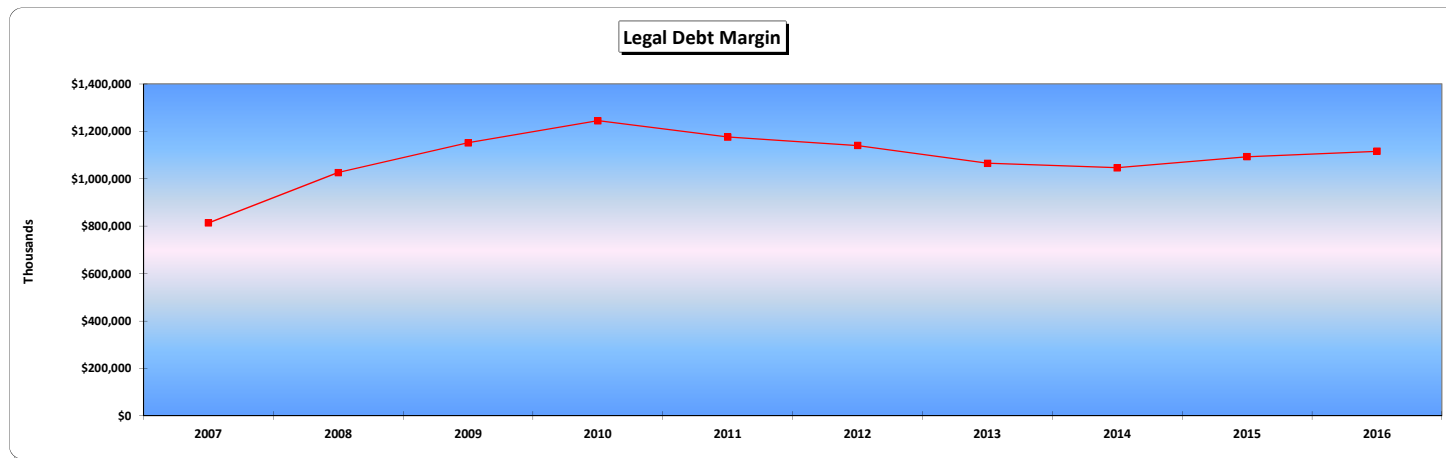


Debt per Capita



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

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Assessed Value of Real Estate:										
General	\$14,393,093,200	\$14,072,307,152	\$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
Public Service Corporations	349,931,124	352,225,787	352,225,787	333,265,887	339,789,784	326,888,523	293,307,435	250,994,845	211,388,045	180,706,024
Total assessed value	14,743,024,324	14,424,532,939	14,348,343,173	14,483,632,547	15,108,456,084	15,364,542,924	16,352,751,878	15,778,915,562	14,497,390,969	12,474,159,761
Total debt limit (10% of Total Assessed Value)	1,474,302,432	1,442,453,294	1,434,834,317	1,448,363,255	1,510,845,608	1,536,454,292	1,635,275,188	1,577,891,556	1,449,739,097	1,247,415,976
Bonds Outstanding:										
General Obligation	331,310,000	318,350,000	352,775,000	343,595,000	322,830,000	311,700,000	341,405,000	378,499,990	371,155,000	378,656,195
General Obligation: Virginia Public School Authority (VPSA)	1,741,482	2,430,106	3,099,111	3,749,472	4,382,117	5,256,983	6,105,937	6,929,403	7,728,827	8,506,195
General Obligation: Virginia Resources Authority (VRA) Loan Fund	19,529,503	22,128,990	24,727,534	27,228,156	29,583,326	31,776,867	30,761,968	21,997,022	25,644,960	25,705,339
General Obligation: Virginia Municipal Pool Loans (VMPL)	-	162,564	737,565	1,312,565	1,887,565	2,462,565	3,037,565	3,612,565	4,187,565	4,762,565
Guaranty of Peninsula Airport Bonds	-	-	-	-	4,180,000	4,490,000	4,780,000	5,055,000	5,315,000	5,565,000
Literary Fund	4,618,588	5,038,355	5,458,122	5,877,889	6,297,656	6,717,425	7,598,441	8,034,421	8,829,688	9,320,937
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	2,442,494
Capital leases	320,418	433,747	570,701	-	-	-	360,965	387,811	53,406	139,513
Amount available in Debt Service Fund	(1,923,785)	(1,738,973)	(1,559,619)	(1,467,172)	(1,183,546)	(4,370,897)	(6,511,346)	(1,258,059)	(2,138,839)	(1,306,632)
Total debt outstanding	358,038,700	349,247,283	388,250,908	382,738,404	370,419,612	360,475,437	389,981,024	425,700,647	423,218,101	433,791,606
Legal debt margin	\$1,116,263,732	\$1,093,206,011	\$1,046,583,409	\$1,065,624,851	\$1,140,425,996	\$1,175,978,855	\$1,245,294,164	\$1,152,190,909	\$1,026,520,996	\$813,624,370
Total net debt applicable to the limit as a % of debt limit	75.71%	75.79%	72.94%	73.57%	75.48%	76.54%	76.15%	73.02%	70.81%	65.22%



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

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	
Revenues	\$ 89,992,744	\$ 88,819,826	\$ 85,580,834	\$ 76,099,474	\$ 73,337,821	\$ 74,497,013	\$ 72,719,343	\$ 73,817,176	\$ 76,003,756	
Less the Sum of:										
Operating Expenses	48,435,441	43,199,329	43,866,179	44,089,732	43,538,269	42,366,225	42,696,818	41,863,251	40,055,421	
120% of Max Debt Service on Revenue Bonds	2,213,227	3,129,200	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	15,886,779	15,935,112	16,006,224	16,356,343	16,710,108	19,355,120	16,356,343	16,356,343	19,552,167	
	66,535,447	62,263,641	63,001,603	63,575,275	63,377,577	64,850,545	62,182,361	85,774,959	62,726,073	
Equals (1)	\$ 23,457,297	\$ 26,556,185	\$ 22,579,231	\$ 12,524,199	\$ 9,960,244	\$ 9,646,468	\$ 10,536,982	\$ (11,957,783)	\$ 13,277,683	

(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
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	6,891,612	37,862	32	29,222	6.9%
2014	182,020	7,045,829	38,509	32	29,268	6.4%
2015	182,965	-	-	33	29,118	6.0%
2016	182,385	-	-	33	28,865	5.0%

Sources:

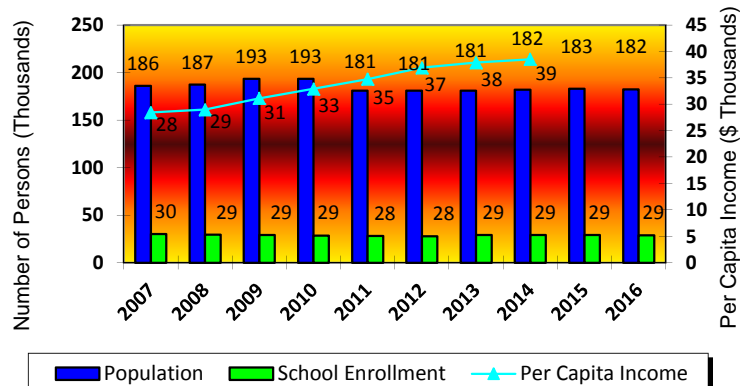
Note: Population figures are derived as follows: 2007 - 2008 City estimates, 2009 - 2015 Census Bureau estimates.

Personal Income: 2005 - 2007 Virginia Employment Commission; 2008-2012 Bureau of Economic Analysis; 2015 - 2016 were not available at year-end.

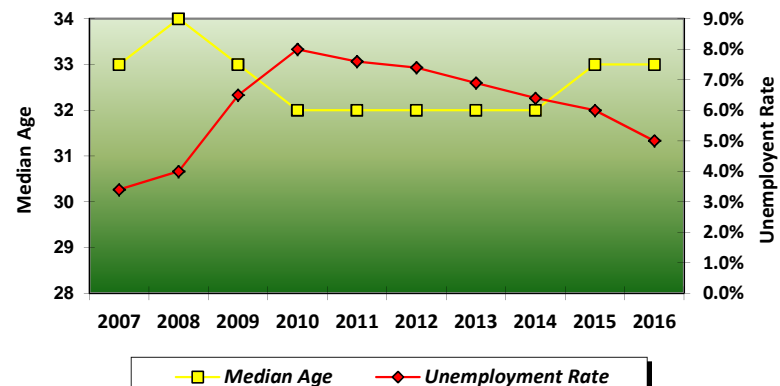
Per Capita Income: 2005, 2007 - 2012 Bureau of Economic Analysis; 2015 - 2016 were not available at year-end.

Unemployment Rate: 2007 - 2009 Virginia Employment Commission; 2010-2014 Virginia Workforce Connection; 2015-2016 Virginia Labor Market Information

Population, School Enrollment, Per Capita Income



Median Age - Unemployment



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

	2016		2007	
	Employees	% of Total City Employment	Employees	% of Total City Employment
Huntington Ingalls Industries, Inc.	10,000 - 25,000	20.30%	10,000 - 25,000	19.43%
Riverside Regional Medical Center	1,000 - 5,000	3.48%	1,000 - 5,000	3.33%
Newport News Public Schools	1,000 - 5,000	3.48%	1,000 - 5,000	3.33%
City of Newport News	1,000 - 5,000	3.48%	1,000 - 5,000	3.33%
U.S. Department of Defense	1,000 - 5,000	3.48%	1,000 - 5,000	3.33%
Ferguson Enterprises Inc.	1,000 - 5,000	3.48%	1,000 - 5,000	3.33%
Christopher Newport University	1,000 - 5,000	3.48%	1,000 - 5,000	3.33%
Canon	1,000 - 5,000	3.48%	500 - 999	0.83%
U.S. Department of Army and Air Force	1,000 - 5,000	3.48%	1,000 - 5,000	3.33%
Walmart	1,000 - 5,000	3.48%	500 - 999	0.83%
APAC Customer Services	-	-	500 - 999	0.83%
Total	19,000 - 70,000	51.61%	18,500 - 62,997	45.25%

Source: Virginia Employment Commission

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

Fund, Function, Activity and Elements	Full-Time City Government Employees as of June 30									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
General Fund:										
General Government Administration:										
Legislative:										
City Council	7	7	7	7	7	7	7	7	7	7
City Clerk	4	4	4	5	5	5	5	5	5	5
General and Financial Administration:										
City Manager	10	18	18	18	18	18	21	21	23	23
Human Resources	16	15	15	18	19	19	18	18	20	20
City Attorney	18	18	18	18	18	18	18	18	19	19
Internal Auditor	6	6	6	6	6	6	6	6	7	7
Commissioner of the Revenue	42	40	40	40	40	40	42	42	40	40
Real Estate Assessor	21	21	22	22	22	22	23	23	23	23
City Treasurer	34	33	33	33	33	33	34	34	35	35
Finance	18	18	18	18	18	18	18	18	19	19
Budget and Evaluation	7	7	7	7	7	7	7	7	7	7
Office of Self-Insurance (General Liability Insurance Fund)	6	6	6	6	6	6	9	9	9	9
Purchasing	19	21	20	23	23	23	23	23	24	24
Information Technology	57	57	56	57	57	58	63	63	66	66
Customer Service - 311 Call Center*	-	10	10	6	-	-	-	-	-	-
Communications*	24	-	-	-	-	-	-	-	-	-
Board of Elections:										
Registrar	5	5	5	5	5	5	5	5	5	5
Total General Government Administration	294	286	285	289	284	285	299	299	309	309
Judicial administration:										
Courts:										
Circuit Courts	7	6	6	6	6	7	7	7	7	7
Office of the Magistrate	6	6	6	6	6	6	6	6	6	6
Clerk of the Circuit Court	24	24	23	23	24	24	27	27	27	27
Court Services	2	2	2	2	2	2	2	2	2	2
Commonwealth's Attorney	49	49	49	49	49	49	50	50	51	47
Total Judicial Administration	88	87	86	86	87	88	92	92	93	89
Public Safety:										
Law Enforcement and Traffic Control:										
Police Department	588	586	586	586	586	587	593	593	578	578
Emergency Communications	-	-	-	-	-	-	-	-	4	4
Fire and Rescue Services:										
Fire Department	380	379	380	380	382	382	371	371	372	377
Correction and Detention:										
Sheriff	219	215	215	217	217	217	222	222	202	198
Adult Corrections**	-	60	60	60	61	62	69	69	73	72
Juvenile Detention	130	126	126	125	130	128	143	143	168	171
Inspections:										
Codes Compliance	38	38	38	38	39	39	40	40	41	41
Total Public Safety	1,355	1,404	1,405	1,406	1,415	1,415	1,438	1,438	1,438	1,441
Public Works:										
Engineering	68	69	78	78	84	85	93	93	98	97
Public Works Administration	185	156	152	157	158	158	170	170	167	167
Total Public Works	253	225	230	235	242	243	263	263	265	264
Welfare:										
Human Services	377	377	387	391	391	391	397	397	396	394
Office of Youth Development	0	-	-	-	-	-	-	-	9	9
Total Welfare	377	377	387	391	391	391	397	397	405	403
Parks and Library:										
Parks and Recreation	108	106	108	107	105	106	117	117	122	120
Parks and Recreation Revolving Fund	80	83	93	94	95	95	98	98	95	93
Library	52	52	53	56	56	57	61	61	67	67
Total Parks, Recreation and Library	240	241	254	257	256	258	276	276	284	280
Community Development:										
Planning and Community Development:										
Development	19	17	17	17	17	18	20	20	20	20
Planning	13	12	12	13	13	13	14	14	15	15
Total Community Development	32	29	29	30	30	31	34	34	35	35
Total General Fund	2,639	2,649	2,676	2,694	2,705	2,711	2,799	2,799	2,829	2,821
OTHER OPERATING FUNDS										
Public Utilities Fund	352	353	353	365	365	365	370	370	381	372
Vehicle & Equipment Services Fund	41	39	39	39	40	40	40	40	43	40
Solid Waste Revolving Fund	66	64	64	61	61	66	66	66	68	68
Wastewater Fund	104	100	99	97	95	87	87	87	76	76
Stormwater Management Fund	98	90	88	84	81	79	79	79	84	84
Pension Fund	6	6	6	6	6	6	7	7	7	7
Economic and Industrial Authority	5	5	5	5	5	5	5	5	5	4
Parking Authority Fund	2	2	2	2	2	2	2	2	2	1
Law Library	1	1	1	1	1	1	2	2	2	1
Schools	3,904	3,921	3,937	4,026	4,076	4,138	4,296	4,293	4,420	4,468
Peninsula Regional Animal Shelter	11	11	11	-	-	-	-	-	-	-
Total Other Operating Funds	4,590	4,592	4,605	4,686	4,732	4,789	4,954	4,951	5,088	5,121
TOTAL CITY EMPLOYEES	7,229	7,241	7,281	7,380	7,437	7,500	7,753	7,750	7,917	7,942

Source: City Adopted Budget.

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

Function/Program	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
General Government										
Retail Sales (Millions)	2,278	2,212	2,242	2,202	2,109	1,893	1,923	1,873	2,021	2,122
Police										
Calls for Service	75,150	154,111	170,317	169,877	255,267	250,126	251,346	179,975	219,634	230,065
Number of Offenses	9,855	19,291	20,601	20,888	22,516	21,386	23,905	30,787	23,269	24,415
Adult Arrests	4,997	13,156	15,182	9,804	14,759	15,065	15,093	15,496	17,477	18,592
Traffic Summonses	17,011	22,700	29,974	28,383	32,961	15,682	26,611	22,944	23,417	27,072
Traffic Accidents	1,490	2,924	2,756	2,641	2,517	2,480	2,510	3,068	3,484	3,825
Fire										
Fire Calls	-	-	-	-	-	-	-	12,718	12,569	6,134
EMS Calls	-	-	-	-	-	-	-	21,492	24,854	24,872
Structure Fires	-	-	-	-	-	-	-	517	430	484
Emergency Medical Service/Rescue*	22,938	22,728	27,574	22,017	24,674	22,190	21,845	-	-	-
Public Assistance*	1,045	1,939	1,660	1,651	1,461	1,569	1,483	-	-	-
Good Intent Calls*	1,817	1,817	150	1,685	1,305	1,309	1,457	-	-	-
False/Alarm / Alarm Malfunction*	1,381	1,436	778	1,375	1,348	1,418	1,428	-	-	-
Hazardous Conditions*	109	564	572	637	930	720	879	-	-	-
All Fires*	543	578	610	639	704	870	776	-	-	-
Explosions*	7	7	7	14	18	2	18	-	-	-
Weather Event/Other*	9	10	4	57	51	27	16	-	-	-
Sheriff										
City Jail Capacity	300	300	300	300	300	300	248	248	248	248
Codes Compliance										
Building Permits Issued	1,372	1,545	1,589	1,985	2,155	1,759	1,821	2,079	2,203	2,640
Residential Construction	222	219	230	222	340	262	198	91	130	192
Commercial Construction	55	76	69	49	102	81	37	53	59	65
Waterworks										
Gallons Delivered Per Day (Millions)	34	35	35	35	36	40	40	42	44	44
Meters Connected**	134,191	133,722	133,380	132,743	132,439	134,403	131,924	128,614	124,956	124,677
Public Works										
Potholes Repaired	23,208	19,148	18,148	15,305	15,125	19,216	17,675	7,742	9,697	12,543
Streets Resurfaced (Miles)	10	12	8	7	8	9	9	10	11	8
Recyclables collected (Tons)	6,300	6,901	7,325	6,957	6,698	7,641	7,463	9,924	10,538	10,335
Parks and Recreation										
Park Vistors (Millions) (All Parks)	4	4	4	4	4	4	4	4	4	4
Celebration of lights vistors	110,679	104,617	103,491	109,700	112,854	93,428	91,665	103,341	103,400	111,786
Tourism visitor inquiries	152,252	78,795	77,224	79,088	87,732	80,206	79,610	108,412	129,495	141,774
Tourism web site visits****	241,722	200,132	198,520	215,849	147,875	126,754	138,048	117,588	116,109	93,418
Vistor guides distributed	200,000	200,000	200,000	165,000	150,000	150,000	150,000	150,000	150,000	150,000
Library										
Circulation Transactions	788,356	887,044	951,241	1,009,939	1,062,759	941,934	847,367	767,131	715,613	688,569
Reference	106,329	152,153	321,102	174,356	178,117	140,623	140,071	129,196	126,182	139,285
Computer use	236,361	302,465	256,929	244,971	240,257	235,080	231,601	206,687	176,168	177,092
Program attendance	22,442	14,985	16,272	26,206	14,526	24,552	14,490	16,594	12,323	13,785
Visitor count***	890,717	890,717	829,290	889,407	759,840	814,129	997,912	973,869	942,224	909,939
Meeting room use	1,294	1,872	916	830	1,126	1,193	1,218	1,223	1,330	1,140
Schools										
Average Daily Students	28,865	29,118	29,268	29,222	27,701	28,183	28,610	29,023	29,441	30,218

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									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Function/Program										
Police										
Patrol Units	242	238	238	245	237	253	240	224	221	224
Boats	3	3	2	3	3	2	2	1	1	1
Fire										
Stations	11	11	11	11	11	11	11	10	10	10
Fire Trucks	25	25	25	26	26	23	23	25	24	22
Ambulances	18	17	17	17	17	17	17	17	16	16
Boats	2	2	2	2	2	2	2	2	2	2
Engineering										
Streetlights	20,586	21,387	20,308	20,125	20,033	19,780	19,645	19,616	20,411	19,791
Traffic Lights	261	261	257	253	253	255	253	253	258	256
Parks and Recreation										
Parks	37	37	36	36	35	35	35	35	32	32
Acreage	8,697	8,697	8,697	9,120	9,119	9,119	9,119	9,119	9,119	9,939
Athletic Fields	154	154	154	97	97	97	97	97	102	102
Mini-parks	3	3	3	3	3	3	3	3	3	4
Beach/Waterfront Areas	8	8	8	8	8	8	8	8	4	4
Boat Ramps	7	7	7	7	7	7	7	9	5	5
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	57	57	65	56	57
Tennis Courts (pay)	24	24	24	24	24	24	24	20	20	24
Squares	3	3	3	3	3	3	3	3	2	5
Library										
Books	322,888	260,618	268,173	287,595	273,640	325,370	324,531	340,733	333,176	464,194
Paperbacks	15,609	17,520	17,895	17,497	17,374	19,914	21,276	21,173	20,382	24,758
Videos/DVD's	41,839	39,898	36,793	32,714	26,859	26,270	21,259	19,910	15,128	12,821
Cassettes/Compact Disks	20,826	21,455	20,910	20,362	20,960	22,911	20,605	16,359	12,453	21,227
Microfilm	1	1	1	-	-	-	-	-	5,320	9,216
Microfiche	-	-	-	-	-	-	-	-	-	1,060
Waterworks										
Miles of Pipe	1,754	1,754	1,746	1,748	1,746	1,798	1,780	1,786	1,785	1,781
Fire Hydrants	11,069	11,113	10,987	10,939	10,874	10,821	10,700	10,650	10,129	9,944
Public Works										
Refuse Carts	76,654	76,654	77,619	78,354	79,056	82,023	76,607	76,729	76,725	76,202
Streets (miles)	510	505	505	505	666	505	505	504	504	503
Lanes (miles)**	1,203	1,193	1,193	1,191	1,191	1,191	1,184	1,183	1,183	1,180
Sanitary sewers (miles)*	584	584	699	709	709	554	572	572	708	708
Storm sewers (miles)*	599	607	717	542	542	542	487	487	659	605
Pump Stations	183	183	182	180	185	177	179	179	175	171
Schools										
Early Childhood centers	4	4	4	4	4	4	4	4	4	4
Elementary schools	24	24	24	24	24	25	26	26	26	25
Middle schools	7	7	7	7	7	7	7	7	8	8
High schools	5	5	5	5	5	5	5	5	5	5
Middle-High 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.

** For previous years beginning in 2012, Non-VDOT eligible roads were included in Lane Miles. The correct totals have been provided for FY16 and include corrected totals for FY12, FY13, FY14, and FY15.

**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, 2016, 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 22, 2016. 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 one instance required to be reported under the *Specifications for Audits of Counties, Cities and Towns*, which is described in the accompanying schedule of findings and questioned costs as item 2016-003.

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 22, 2016

**Report of Independent Auditor on Compliance for Each Major Program
And on Internal Control over Compliance Required by the Uniform Grant Guidance**

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 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, 2016. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002. Our opinion on each major federal program is not modified with respect to these matters.

The City's responses to the noncompliance 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 compliance and, accordingly, we express no opinion on the responses.

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 the Uniform Guidance, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses. We did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002 that we consider to be significant deficiencies.

The City's responses to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the responses.

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 the Uniform Guidance. Accordingly, this report 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, flowing style.

Richmond, Virginia
November 22, 2016

CITY OF NEWPORT NEWS, VIRGINIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

<u>Federal Granting Agency/Recipient State Agency</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
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	\$ 3,230,537
Department of Agriculture:		
Pilot projects- SNAP	10.596	348
School Lunch Program-Commodities	10.555	\$ 14,085
Department of Education:		
School Breakfast Program (777-360-01; 777-360-03)	10.553	<u>131,001</u>
Total Child Nutrition Cluster		145,086
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	1,092,501
Pass-through Payments:		
Department of Housing & Community Development:		
Neighborhood Stabilization Program (08-NSP-05)	14.228	68,618
Home Investment in Affordable Housing (M-07-MC-51-0202, M13-MC-51-0202)	14.239	1,979,466
Economic Development Initiative Special Projects (B08-SP-VA-0709)	14.251	53,925
DEPARTMENT OF JUSTICE		
Direct Payments -		
Office of Justice Programs:		
Public Safety Partnership & Community Policing Grants (2010-CK-WX-0248)	16.710	366,312
Edward Byrne Memorial Justice Assistance Grants (2010-DJ-BX-0899)	16.738	83,515
Violence Prevention Demonstration Program 2013-MU-FX-K002	16.123	214,663
Law Enforcement and Missing Persons	16.015	3,606
Pass-through Payments:		
Department of Criminal Justice Service:		
Victims of Crime Act (VOCA) (140-390-01)	16.575	56,699
Equitable Sharing Program	16.922	208,009
Office of Juvenile Justice & Delinquency Prevention		
Juvenile Accountability Incentive Block Grants	16.540	8,479
DEPARTMENT OF TRANSPORTATION		
Pass-through Payments:		
Va Department of Transportation:		
Highway Planning & Construction	20.205	4,017,146
Va Department of Motor Vehicles:		
DMV Select Enforcement	20.607	<u>58,272</u>
Totals, page 1		<u>\$ 11,587,182</u>

CITY OF NEWPORT NEWS, VIRGINIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

<u>Federal Granting Agency/Recipient State Agency</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
DEPARTMENT OF HEALTH & HUMAN SERVICES		
Pass-through Payments:		
Department of Social Services:		
Affordable Care Act MIECH Visiting Program	93.505	\$ 360,514
Promoting Safe and Stable Families (765-469-01)	93.556	36,025
Temporary Assistance for Needy Families (765-452-01; 765-460-03)	93.558	2,786,128
Refugee and Entrant Assistance (765-460-03; 765-491-02)	93.566	95,921
Low-Income Home Energy Assistance (765-460-03)	93.568	299,148
Child Care and Development Block Grant Act of 1990 (765-452-15)	93.575	\$ (2,164)
Child Care and Development Mandatory Matching Funds (765-460-03)	93.596	<u>364,957</u>
Total Child Care Cluster		362,793
Chafee Education and Training Vouchers Program (765-469-01)	93.599	10,100
Child Welfare Services State Grants (765-460-06)	93.645	14,679
Foster Care - Title IV-E (765-460-03; 765-460-06; 765-469-01)	93.658	1,586,101
Adoption Assistance (765-460-03; 765-469-03)	93.659	1,821,426
Social Services Block Grant (765-460-03; 765-468-02; 765-469-01)	93.667	1,981,777
Independent Living (765-460-03; 765-469-01)	93.674	16,023
State Children's Insurance Program (765-460-03)	93.767	142,605
Medical Assistance Program - Title XIX (765-460-03)	93.778	4,142,933
SOCIAL SECURITY ADMINISTRATION		
Direct Payments:		
Social Security Incentive Program	96.006	1,800
DEPARTMENT OF HOMELAND SECURITY		
Direct Payments:		
FEMA Dept. of Homeland Security (EMW-2012-PU-APP-00134)	97.056	126,482
FEMA Dept. of Homeland Security (EMW-2012-FH-084)	97.083	631,580
FEMA Dept. of Homeland Security (EMW-2009-FO-017/2012-FO-014)	97.044	14,720
Pass-through Payments:		
Department of Emergency Management:		
Emergency Management Performance Grants	97.042	131,995
Homeland Security Grant	97.067	<u>195,852</u>
Totals, page 2		<u>14,758,602</u>
Grand Total		<u>\$ 26,345,784</u>

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

(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 on the modified accrual basis of accounting 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. The City did not elect to use the 10% indirect cost rate. The City operates on a contractual basis with its grant partners and therefore, does not have any sub-recipients.

(2) Relationship to Basic Financial Statements

Federal expenditures are reported in the City's basic financial statements as follows:

	<u>Federal expenditures</u>
General Fund	\$ 16,258,351
Special Revenue Funds Capital Projects	4,046,830
Special Revenue Funds	<u>6,040,603</u>
Total expenditures	<u><u>\$ 26,345,784</u></u>

City of Newport News, Virginia

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

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, Findings 2016-001 and 2016-002**
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 in accordance with 200.516(a) of the Uniform Guidance: **Yes, Findings 2016-001 and 2016-002**
9. The programs tested as major programs were:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.778-CL	Medical Assistance Program - Title XIX
14.218	Community Development Block Grants (CDBG)
93.659	Adoption Assistance
93.658	Foster Care - Title IV-E
14.239	Home Investment in Affordable Housing

10. Dollar threshold used to distinguish between type A and type B programs: **\$790,373**
11. City of Newport News qualified as a low-risk auditee under in accordance with 200.516(a) of the Uniform Guidance: **Yes**

B. Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards:

None

C. Findings and Questioned Costs Relating to Federal Awards:

2016-001: Significant Deficiency and Non-Compliance – Reporting

Program: Community Development Block (CDBG) Grant Program (CFDA # 14.218 – US. Department of Housing and Urban Development (HUD); Federal Award Number: 3FD 2015 FYI (F) EC1 865/70162; Grant number: B-15-MC-51-0015; Federal Award Year: 2015)

Condition: The City did not submit its Section 3 Summary Report with its CAPER as required by 24 CFR §135.90.

Criteria: Per 24 CFR §135.90 *"Where the program providing the section 3 covered assistance requires submission of an annual performance report, the section 3 report will be submitted with that annual performance report."*

Cause: The City did not file the Section 3 Summary Report by January 10th.

Effect: Failure of the City to not submit Section 3 Summary Report with its CAPER as required by 24 CFR §135.90 results in non-compliance with the program's requirements and could cause programmatic repercussions by the grantor.

Questioned Costs: Non-financial finding.

Recommendation: The City should implement corrective action to ensure the submission of the Section 3 Summary Report along with the City's Annual Performance Report in accordance with 24 CFR §135.90.

Views of Responsible Officials:

- **Contact Person:** Tricia Wilson, Business Development Specialist, Department of Development, Sam Workman, Assistant Director of Development.
- **Corrective Action:** City staff has registered in the new reporting system and is awaiting credentials in order to properly submit its report in the new electronic system. A draft hard copy of the report has been completed and is awaiting receipt of staff credentials to be submitted. Staff will create an electronic calendar and paper file tickler to assure that the Section 3 report will be submitted at the appropriate time in the future.
- **Anticipated Completion Date:** Credentials to submit data in the electronic reporting system should be received within 10 business days, thus as soon as the necessary information is received the report will be done. This will be done on or before December 15, 2016. The tickler reminders will be set up immediately (November 21, 2016).

2016-002: Significant Deficiency and Non-Compliance – Special Tests and Provisions – Required Certifications and HUD Approvals

Program: Community Development Block Grant Program (CFDA # 14.218 – US. Department of Housing and Urban Development; Federal Award Number: 3FD 2015 FYI (F) EC1 865/70162; Grant number: B-15-MC-51-0015; Federal Award Year: 2015)

Condition: The City failed to document its determination that the Bus Shelter Project was exempt from the requirements for preparing a Request for Release of Funds (RROF).

Criteria: Per 24 CFR section 58.22, funds (and local funds to be repaid with CDBG funds) cannot be obligated or expended before receipt of HUD's approval of a RROF and environmental certification, except for exempt activities under 24 CFR section 58.34 and categorically excluded activities under section 58.35(b).

Cause: The City's Development Department did not inform the Engineering Department of the requirement that all projects require a formal RROF submission.

Effect: Failure of the City to not submit a RROF results in non-compliance with the program's requirements and could cause programmatic repercussions by the grantor.

Questioned Costs: None noted.

Recommendation: The City should implement corrective action to ensure the submission of RROF forms consistent with program requirements.

Views of Responsible Officials:

- **Contact Person:** Tricia Wilson, Business Development Specialist, Department of Development, Sam Workman, Assistant Director of Development.
- **Corrective Action:** The proper form to reflect that the Bus Shelter Accessibility activity is Categorically Excluded will be completed and included in the file. In the future and at the beginning of each program year the City, in collaboration with its Administrative Agent, will review each budgeted CDBG activity and complete an environmental checklist to determine what level of environmental review/assessment is needed. Once that determination is made the checklist will be included in activity folders and if an RROF is required that form will be completed and submitted to HUD.
- **Anticipated Completion Date:** The omitted checklist will be completed and in the project file by November 30, 2016. The activity review will be conducted and checklists for each program year will be in file within 15 days of HUDs approval of the City's Annual Action Plan, which includes the approved program year budget for specified activities. And, an RROF will be submitted as is required for appropriately identified projects.

D. Findings and Questioned Costs Relating to Compliance with Commonwealth of Virginia Laws, Regulations, Contracts, and Grants

2016-003: Social Services Business Continuity Plan (COOP)

Condition: The City's current plan was not updated within the past 12 months, although revisions were made during the fiscal year ended June 30, 2016; however, the revisions made to the COOP had not been adopted by City Council and there was not an executable plan that had been updated within the past 12 months.

Criteria: Per Section 3-15 of the *Specifications for Audits of Counties, Cities, and Town*, 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.

Cause: Revisions to the COOP over the 12 months ended June 30, 2016 had not been adopted by City Council; therefore, an executable plan was not updated as required.

Effect: Non-compliance may result in an inadequate business continuity plan and lead to a disruption in operations.

Questioned Costs: Non-financial finding.

Recommendation: The City should implement corrective action ensuring an annual review of the City's Department of Human Services' Business Continuity Plan and that the plan is adopted and fully executable.

Views of Responsible Officials:

- **Contact Person:** Patrick Childs, Administrative Support Bureau, Melody Sprague, Chief of Fiscal Operations
- **Corrective Action:** The Department has made revisions to the original plan and sent to the City Board for approval.
- **Anticipated Completion Date:** Prior to 6/30/17

E. Status of Prior Year Findings:

2015-001: Social Services Business Continuity Plan – Finding repeated see 2016-003

2015-002: Social Services Email Encryption – Finding not repeated

2015-003 Child Welfare and Trust Accounts and Social Security Recipients (SSI) – Finding not repeated



BUILD A DREAM, SCULPTURE BY RICHARD HUNT

COMPREHENSIVE ANNUAL FINANCIAL REPORT 2016

DEPARTMENT OF FINANCE
2400 WASHINGTON AVENUE | NEWPORT NEWS, VIRGINIA 23607
CITY OF NEWPORT NEWS, VIRGINIA

