Comprehensive Annual Financial Report 2012

City of Newport News, Virginia

Fiscal Year Ended
June 30, 2012

CITY OF NEWPORT NEWS, VIRGINIA

Comprehensive
Annual Financial Report

Fiscal Year Ended June 30, 2012

Prepared by the

Department of Finance

2400 Washington Avenue
Newport News, VA 23607

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CITY OF NEWPORT NEWS, VIRGINIA

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City of Newport News

Virginia 23607

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Office Of The City Manager

November 30, 2012

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, 2012 (FY 2012).

Cherry, Bekaert & Holland, LLP, Certified Public Accountants, conducted the audit of the City's financial statements for the year ended June 30, 2012, and have issued an unqualified ("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 cost 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 enable the reader to gain maximum understanding of the City's financial affairs.

Profile of the City and its Government

The City of Newport News, incorporated in 1896, is located on the eastern coast of Virginia. It occupies 69 square miles with a population of 180,719, based on the 2010 census estimates.

CITY OF NEWPORT NEWS, VIRGINIA

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

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

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

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

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

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 to adopt a final budget by the 15th day of the last month of the fiscal year (June 15). Once the budget is approved, the focus is upon control over expenditures. Ongoing monitoring of revenues and expenditures throughout the year is a responsibility shared by department directors and the Department of Budget and Evaluation (Budget Department).

The Budget Department reviews all transfer requests from departments to ensure that sufficient appropriations are available. The City Manager has the authority to transfer budgeted amounts between 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 or enterprise fund for which an annual budget has been adopted.

Local Economy

A vibrant city of 180,000, Newport News is at the mid-point of the Atlantic Coast and at the center of the Virginia Beach-Norfolk-Newport News Metropolitan Statistical Area, the 36th largest market in the United States and the largest metro between Washington and Atlanta, with a population estimate of 1.68 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. Though Newport News is a proud, independent city, 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, and Newport News is a vital contributor to the wonderful lifestyle, energy, and economic strength of this vibrant area.

Newport News has an economic foundation which was historically based largely on livelihoods benefitting from the constant presence of water—shipbuilding, fishing, and both naval and commercial transport networks. Over the past 30 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 School System

One of the most important services provided by a city to its taxpayers is the education of the children of the community. The Newport News School System (Schools) provides a full range of public education services to approximately 30,200 students from pre-kindergarten through the 12th grade. Schools operates 41 separate facilities and provides alternative services at three additional non-owned sites.

Schools receives its funding from taxes collected and allocated by the City and the state, in addition to federal aid. Capital funding for public school facilities is provided primarily by the sale of general obligation bonds of the City.

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

Economic Condition and Outlook

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

Newport News routinely enjoys unemployment rates lower than the national average. During FY 2012, the national unemployment rate was 8.2%, while the City's rate decreased from 7.6% to 7.4% at June 30, 2012.

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

Recent positive economic news involved some of the City's largest employers:

Joint Base Langley/Eustis

The relocation in 2011 of the U.S. Army's Training and Doctrine Command (TRADOC) to Joint Base Langley/Eustis (formerly Fort Eustis), at the northern end of the Warwick Boulevard corridor was a major economic benefit to the City, as the status of the base was raised from a one-star to a four-star command. Expected additional transfers indicate a growth in military and civilian employment at Fort Eustis exceeding 1,700 during the coming years.

The Defense Department has spent almost $200 million at Fort Eustis so far for the TRADOC move and upgrading other facilities, with another $300 million in construction underway. This investment includes a major training complex and the construction of 450 new homes and the renovation of about 425 existing homes at Fort Eustis under the Defense Department's military housing privatization initiative. A recently completed second entrance to Fort Eustis from Warwick Boulevard provides better access to the Upper Warwick Boulevard commercial corridor, which should benefit from the additional spending power that will soon be present at Fort Eustis.

Huntington Ingalls Industries and the Apprentice School Project

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

The Apprentice School Project is one of the most exciting redevelopment projects in the history of the City. It is a $70 million mixed-use redevelopment project in the City's traditional downtown – the result of a collaborative effort between the City, the Industrial Development

Authority, the Commonwealth of Virginia, Huntington Ingalls Industries and Armada Hoffler Development Company. The project includes a state-of-the-art 80,000 square-foot Apprentice School, approximately 174 market-rate/affordable apprentice and workforce housing units, 30,000 square feet of retail, a 380-space parking garage and green area, all in a campus-like setting on an approximately 6-acre downtown site. It is hoped that the development will help to revitalize downtown Newport News by enticing more people and businesses to move back into the area. Groundbreaking occurred on May 3, 2012, and the Apprentice School is scheduled to open in December 2013.

The Navy has reaffirmed its commitment to purchase 25 nuclear submarines over the next 30 years, at a total estimated cost of $63 billion in current dollars. Two Virginia-class submarines are being built simultaneously, with construction on each submarine shared by Huntington Ingalls and Electric Boat, and the Shipyard is in the process of making $300 million in capital improvements to handle the two-submarine program, with this work expected to be completed in late 2012. Huntington Ingalls expects the accelerated submarine construction program to create at least 1,000 additional jobs (although some jobs may be filled through reassignment of existing personnel to manage workflow efficiently and peak employment levels may be significantly higher). The Shipyard is currently constructing the Virginia-class submarine *U.S.S. John Warner*, which will be delivered in 2015. The two-submarine construction program began in 2011.

Repair, overhaul and nuclear reactor refueling are steady and dependable parts of the Shipyard's stream of contracts. The contingencies involved in work on existing naval vessels means that contracts (and the work that this provides for Shipyard employees) are often extended or increased. The aircraft carrier *U.S.S. Roosevelt* is undergoing a $2.59 billion overhaul, which should be completed in 2013. When the Roosevelt leaves the Shipyard, the carrier *U.S.S. Abraham Lincoln* will arrive for its mid-life overhaul. The Shipyard has received an $81 million contract for design work to prepare for that work.

Christopher Newport University

Christopher Newport University (CNU), a respected liberal arts institution, is centrally located in Newport News and attracts the majority of its student body from outside the Hampton Roads region. Over the past 15 years, President Paul Trible has led the transformation of the CNU campus and surrounding area with construction of on and off-campus student housing, a new library, sports and convocation center, science building, and structured parking. Another academic building, a residence hall and a chapel are currently underway. Over the past seven years, CNU construction spending amounted to nearly $500 million and supported more than 4,000 area jobs. CNU is also the home of the Ferguson Center for the Arts, a $51 million teaching and performance venue that was designed by I.M. Pei. The Ferguson Center provides a rich cultural environment that brings outstanding talent in the arts and entertainment world to Newport News for performances year-round.

Other important local employers

The Riverside Medical Center, a major level-one trauma center, has recently completed more than $400 million in capital investments to its campus in mid-city. Additionally, another $107 million investment, which includes the construction of a new operating theater, is nearing completion.

Ten colleges and universities have branch campus programs serving Newport News residents and employees. This is indicative of the local demand for second-career training, and the requirements of local employers for higher skilled workers. The University of Virginia and Virginia Tech have announced the creation of a joint educational center with classrooms and offices in Newport News. Certificate, undergraduate and graduate degree programs will be offered in Engineering, Materials Sciences, Information Technology, Education and Management, largely through corporate, government and military partnerships. The center is expected to open in late 2012.

Development continued on the $310 million upgrade to the Continuous Electron Beam Accelerator at the Thomas Jefferson National Accelerator Facility (Jefferson Lab). The upgrade is expected to be completed by 2015. In 2011, the Lab commenced construction on a 100,000 square-foot laboratory and office, as well as a 96,000 square-foot warehouse renovation, representing an investment of $73 million. Beyond the short-term economic impacts generated from construction, the Jefferson Lab expansion will add 50 new employees and bring 200 to 400 additional visitors to our City on an annual basis.

The new Wal-Mart store is under construction at the corner of Jefferson Avenue and Mercury Boulevard. The store is projected to be approximately 156,000 square feet, and Wal-Mart anticipates adding 200+ jobs when the store opens in early 2013.

Progress continues on the Southeast Community Redevelopment initiatives, and visible physical changes are heralding the transformation that is unfolding, including burying overhead utility lines, construction of the Dr. Martin Luther King, Jr. Plaza, installation and dedication of the world-renowned Richard Hunt "Build a Dream" sculpture in August of 2011, and the acquisition and subsequent demolition of the Peddler's Village.

On February 14, 2012, City Council established four tourism zones: Upper Warwick Boulevard/Denbigh, Southeast Community, Patrick Henry, and Greater Hilton Tourism Zone. Under the Local Tourism Zone Incentive Program, eligible businesses can qualify for reimbursement of a portion of new taxes generated by the project. Larger projects may also be eligible for the Commonwealth's Tourism Development Financing Program. Much interest has been shown in the programs, and two projects have been approved to date.

The City is now more than 92% developed, with most of its built environment oriented around automobile-dependent forms of development. New urbanism and sustainable development, which seek to recreate more pedestrian-friendly neighborhoods, have been successfully implemented in Newport News with such projects as City Center at Oyster Point, Port Warwick, Patrick Henry Place and Huntington Pointe (now in its planning stage). 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 2013 to FY 2017 Capital Improvements Plan was approved by City Council on January 10, 2012. The CIP reflects the vision and priorities of the City Council for the construction and maintenance of the buildings and infrastructure improvements owned by the City. Although intended to be a commitment to a multi-year capital needs program, the CIP is fundamentally a planning document and is subject to annual modification and amendment as changing priorities, availability of funding and other factors create the need for revision. Most projects in the CIP are funded by 20-year General Obligation Bonds issued by the City with level annual principal payments. The annual principal and interest payments (debt service) are budgeted in the City's annual operating budget. The General, Schools, Wastewater, Stormwater, Solid Waste, and Marina Funds each pay a proportionate share of principal and interest payments. The Public Utilities (Waterworks) Fund pays all of the debt service related to its capital projects. The FY 2013 Budget requires the General Fund to pay 81%, or $46,733,037, of the total debt service budget of $57,746,658.

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

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

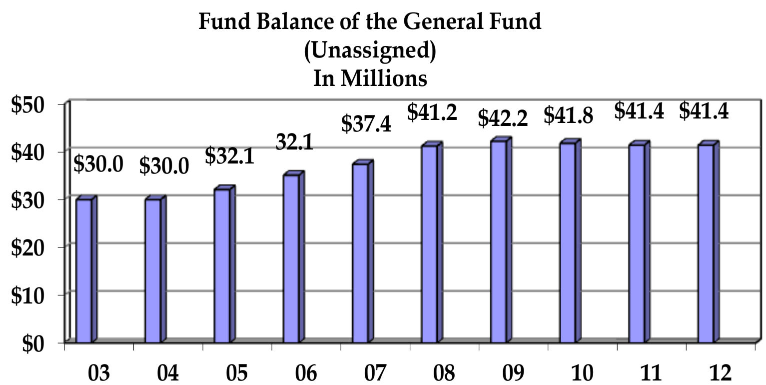
- The goal of the City is to maintain its debt burden at less than 3.0%. Debt burden is defined as the ratio of outstanding general obligation debt and capital lease obligations to value of the total taxable real and personal property. The projected FY 2013 debt burden is 2.7%.

- Because debt service obligations are primarily funded from school and municipal revenues received through the Operating Budget, the City's intent is that the ratio of debt service obligations to General Fund revenue shall not exceed nine and one-half percent (9.5%) in any fiscal year. For FY 2012 the ratio was 9.15% and is projected to be 8.35% for FY 2013.

- The City's intent is to structure principal payments when issuing new General Obligation debt or refinancing existing debt, so that at least thirty percent (30%) of the outstanding debt is repaid within five years, and that at least sixty percent (60%) is repaid within ten years. Currently 43.7% of the outstanding debt is scheduled to be paid in five years, with 72.7% 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 Polices, 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 2012, General Fund revenues exceeded expenditures, including other financial sources, by $3.0 million. The unassigned General Fund balance totaled $41.4 million at June 30, 2012, or approximately 10% of annual General Fund revenues.



While the real estate property tax base has experienced an average growth rate of 4.2% over the past five years, the last two years have shown declines of 3.9% and 1.7%, reflecting the nationwide reduction in home prices and the lowered market value of real estate.

Although the City's financial condition is far better than others in the Commonwealth and the nation, there is no reason to assume any significant increases in City revenues in the short term, especially as revenue from state and federal programs continues to decline. On the expense side, health care costs continue to increase and the City's pension expense is scheduled to increase significantly over the next four years.

The financial outlook for 2012-13 is stable, with slow revenue growth and continued cost-saving efforts. We feel that current management initiatives, along with prudent long-range strategic and comprehensive planning, will enable the City to generate sufficient resources to meet future service demands, maintain a stable financial position, protect the City's high credit rating, and maintain realistic tax burdens on the public.

Other Accomplishments for FY 2012

It is impossible to list all of the significant accomplishments and initiatives undertaken during the year ended June 30, 2012, but some of the more significant are listed below.

Transportation and Infrastructure Improvements

- In conjunction with the Department of Planning, Engineering was successful in securing $20,000,000 in state and federal grants for the design and construction of a multi-modal station to service Amtrak, HRT, Greyhound, CSX, taxi and future light rail providing convenient access to the airport. The design of the new facility will begin in the summer of 2012, and construction is currently planned for 2016.

- Engineering secured approximately $50,000,000 in state and federal grant funds for the Atkinson Boulevard project. This new, four-lane, divided highway will connect Warwick Boulevard and Jefferson Avenue with a bridge span over I-64 and CSX railways. Design, which began in FY 2012, is expected to take two years with construction completion anticipated in 2018.

- Engineering has obtained state and federal grants totaling $2,085,921 for the replacement of two bridges located in the City's downtown. The bridges are scheduled to be replaced over a two-week period during the 2013 shipyard holiday shutdown to minimize traffic impacts

- In FY 2012 the Department of Engineering completed a significant arterial street resurfacing project using over $3 million provided by American Recovery and Reinvestment Act (ARRA) funding.

- The Planning Department secured approximately $600,000 in Congestion Mitigation Air Quality (CMAQ) grant funds to assist Hampton Roads Transit (HRT) install new bus shelters at key bus stops throughout the City. Several of the new bus shelters will have solar lighting that will improve visibility and safety for the transit riders. Two new bus transfer centers were completed in FY 2012. CMAQ funding was also secured to program and construct a bus transit center located in Lee Hall where Williamsburg Area Transit Authority (WATA) connects with Hampton Roads Transit (HRT).

- The new Wastewater Construction Crew completed three, City-wide construction projects in FY 2012 for approximately 4,781 LF at a cost of $251,154.16 with the replacement and/or installation of new mainlines, manholes, and laterals with associated clean out boxes for 33rd Street, River Road, and Mulberry Ave.

Environmental Stewardship and Sustainability

- The Solid Waste Division established a Community Maintenance Team, a field operations unit consisting of two equipment operators, one maintenance assistant, a coordinator and two knuckleboom trucks, the primary purpose of which is to support the City's sustainability goals by responding to illegal dumping issues and by supporting community maintenance events sponsored by the City.

- The Solid Waste Division began collecting household hazardous waste (HHW) at the Compost Facility every week on Friday and Saturday. This provides better service to residents than the previous schedule of quarterly events. Compost Facility personnel have been trained and certified to handle HHW, thus eliminating the need to contract for the quarterly events and the cost of an outsourced provider.

- FY 2012 funding allowed the Department of Parks, Recreation and Tourism and the Department of Adult Corrections to expand the City's community garden from 76 to 115 plots during FY2012. As part of this work, the Department of Public Works installed a permanent water supply for the gardeners. The garden has been a highly successful, low-cost, and sustainable City initiative.

- Several additional displays in the City's drive-through Celebration in Lights were retrofitted with LED lights, which continued to drive down utility costs as well as reduce lighting maintenance for the event. As of FY 2012, the estimated utility cost dropped to around $6,000—which represented a 30% energy savings over 2008.

Public Safety

- The Brentwood Fire Station was opened in August 2011. As a result of an aggressive and targeted funding program, the City received an award through the American Recovery and Reinvestment Act of 2009 to assist in the cost of building the new fire station. The grant award of approximately $2.6 million covered 86% of the construction cost.

- The Fire Department developed and executed plans to renovate the 50-year-old Station #9 in Denbigh. Through a comprehensive cost/benefit analysis, it was determined that a modest investment in rehabilitative measures could extend the service life of the structure another 10 to 15 years. The renovation was completed in April, 2012 at a cost of $625,000 without closing the station and with no degradation of service to the community.

- A Shared Services Initiative with Hampton for Fire/EMS services was started in 2012. After six months of planning and analysis, the City Councils of both Newport News and Hampton have passed respective ordinances granting the City Managers the authority to enter into shared service agreements for Fire and EMS services in three areas: logistics and procurement, applicant hiring, and automatic mutual aid response. It is estimated that the three initiatives will save each jurisdiction approximately $100,000 annually, and that the automatic aid will enhance the level of first responder services received by residents in both cities and reduce average response times.

- In December 2011, the Training Division of the Police Department completed the requirements to be designated as an Accredited Training Academy by the Commission on Accreditation of Law Enforcement Agencies (CALEA) in March, 2012. The Public Safety Training Academy Accreditation Program began in 2002. Its purpose is to promote superior public safety training services and recognize professional excellence.

Community and Recreational Improvements

- The Planning Department partnered with the Department of Engineering for program management and implementation of a Congestion Mitigation Air Quality (CMAQ) grant (approx. $1.7 million) to fund the design and construction of a multi-purpose trail parallel to Warwick Boulevard along the frontage of The Mariners' Museum property. The trail will be located between the entrance to the Museum (Avenue of the Arts) south to Harpersville Road's intersection with Warwick Boulevard. The trail is expected to begin construction in the fall of 2012.

- Deck boards and railings on the 15-year-old, 700-foot-long Dam #1 pedestrian bridge in Newport News Park were replaced in FY 2012. The bridge is used by over 150,000 park visitors annually.

- The 14,000 square-foot "Fort Fun" children's playground in Huntington Park was replaced at a cost of $333,000. The original playground, built in 1992, had deteriorated to the point where replacement was the only option. This unique play area receives 60,000 visits each year.

- Construction on the 52,515 square-foot Stoney Run Community Center commenced in spring 2011 and continued through FY 2012. This facility will feature meeting rooms, two gymnasiums, a dance room, teen center, school-age center and snack bar. The Center is expected to be completed during early FY 2013 at a cost of $11.3 million.

- Several deteriorating tennis courts throughout the City, including four courts at Menchville High School, four courts at Warwick High School, and four courts at the Huntington Park Tennis Center, were resurfaced.

- New trellis structures and a new decorative fence were installed at the Huntington Park Rose Garden.

- A replacement group picnic shelter was constructed adjacent to the Huntington Park Tennis Center, at a cost of $113,220. This shelter replaced one that was lost during

Hurricane Isabel in 2003. The construction of this shelter also replaces the need to have a large tent at this location to accommodate tennis tournaments.

- Solar lights were added to the City entryway signs on Victory Boulevard, as well as on Route 60 at the James City County line.

- New infield irrigation was installed on all five fields at the Stoney Run Athletic Complex in January. The project provides for enhanced safety and more efficient maintenance of the facility.

- Youth Programs initiated a new program at the South Morrison Family Education Center to provide school-age care and other recreation programs for area residents.

- Handicapped accessible pathways at King-Lincoln Park were constructed.

- Budgeted funding allowed for the continuation of several significant special events, including Hollydazzle, 4th of July Stars in the Sky, the Children's Festival of Friends, Family Films by the Fountain and the Annual Fall Festival of Folklife. It also allowed continued financial support for Denbigh Day, The Port Warwick Art and Sculpture Festival, Southeast Community Day and for various programs and organizations selected by the Newport News Arts Commission.

- Historical preservation projects accomplished during FY 2012 included the relocation of military artifacts adjacent to the Virginia War Museum (to facilitate replacement of the equipment pad), relocation of Causey's Mill ($92,000 in Cash Capital Funding), replacement of the worn-out carpet in the Virginia War Museum's Weapons Gallery ($10,500), and continued restoration of the Lee Hall Depot.

- Special Community Maintenance funding allowed for the installation of irrigation and landscaping along the Avenue of the Arts median adjacent to Warwick Boulevard, enhancing the aesthetics of this highly visible and visited intersection.

- The City collaborated with the Hampton Roads Sanitation District to restore landscaping along the upper Warwick Boulevard medians after the installation of new sanitary sewer lines. A total of 170 trees and 300 perennials were planted with HRSD funding the majority of the cost.

- Improvements to the Doris Miller Community Center in FY2012 included new fencing and surfacing of the outdoor basketball court, as well as conversion of the interior snack area to a teen lounge.

- FY 2012 Operating Budget funding allowed the Department of Adult Corrections to undertake the replacement of the first of two wooden pedestrian walkways leading to the fishing pier at Denbigh Park.

- The Southeast Community Plan was adopted by Council on October 11, 2011 as an amendment to the *Framework for the Future 2030* comprehensive plan. The purpose of the plan is to guide public and/or private development and redevelopment within the Southeast Community.

Awards

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Newport News for its comprehensive annual financial report (CAFR) for the year ended June 30, 2011. This was the 33rd consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

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

Respectfully submitted,

Neil A. Morgan
City Manager

Tom Mitchell
Director of Finance

CITY OF NEWPORT NEWS, VIRGINIA

CITY GOVERNMENT OFFICIALS
(at June 30, 2012)

City Council

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

Office of the City Manager

Neil A. Morgan .... City Manager
Alan K. Archer .... Assistant City Manager
Cynthia D. Rohlf .... Assistant City Manager

Department of Finance

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

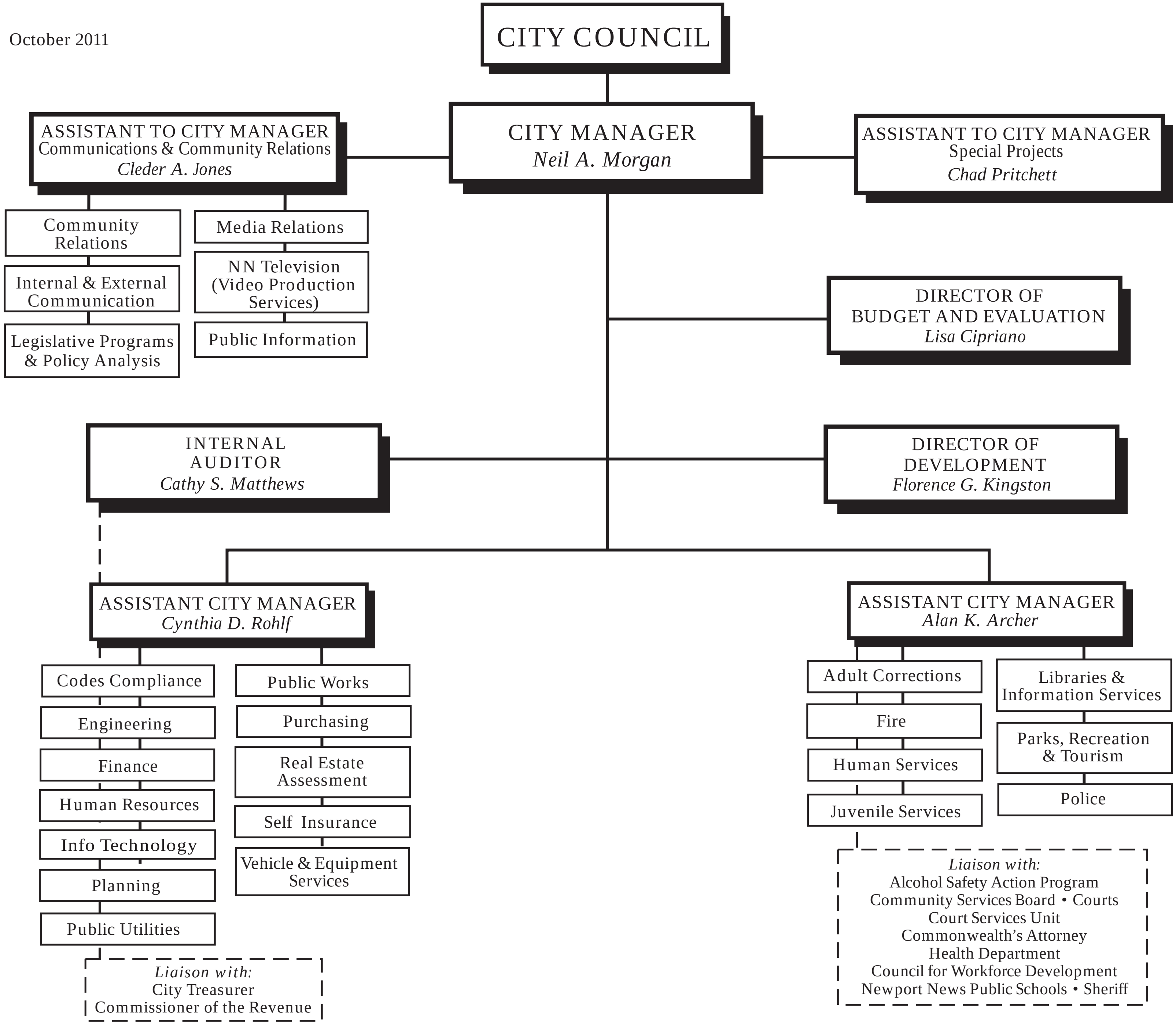
Other Officials

Marty Eubank .... City Treasurer
Pricilla S. Bele. .... Commissioner of the Revenue
Charles T. Vester .... Acting Real Estate Assessor
Lisa Cipriano .... Director of Budget and Evaluation
Cathy S. Matthews .... Director of Internal Audit

Vice Mayor Madeline McMillan elected to retire at the end of her term. Robert Coleman was elected to City Council on May 1, 2012 and reported to his seat on July 1, 2012. Subsequently, Herbert Bateman was voted by City Council to be Vice Mayor.

CITY OF NEWPORT NEWS, VA
Organizational Chart

October 2011



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, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Linda C. Davison

President

Jeffrey R. Esser

Executive Director

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the individual and 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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 22% of the respective assets and 3% of the respective operating revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors, whose report thereon has been furnished to us, and our opinions, insofar as it relates to the amounts included for the Peninsula Airport Commission, are based on the report of the other 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 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 financial position of the governmental activities, the business-type activities, the individual and 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, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as well as budgetary comparison information, schedule of funding progress and schedule of employer contributions on pages 3 through 13 and 81 through 90, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is also presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the City. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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.

Cherry, Bekaert + Holland, L.L.P.

Richmond, Virginia
December 4, 2012

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, 2012 (FY2012). 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 FISCAL YEAR (FY) 2012

General Fund

- At the close of FY 2012, unassigned fund balance for the General Fund was $41.4 million or 10% of FY 2012 total General Fund revenues and transfers in.

- General Fund revenues and transfers decreased $.3 million or .06% below FY 2011, due to a decline in general property taxes, primarily real property taxes. Expenditures and transfers out decreased $16.6 million, 3.9% lower than the prior fiscal year. FY 2012 expenditures and transfers out were .01% more than budget.

- The City's real estate tax rate of $1.10 per $100 of assessed valuation remained unchanged for FY 2012. The tax rate on personal property of $4.25 of assessed valuation, also remained unchanged.

Governmental Activities

- The assets of the City, for its governmental activities, exceeded liabilities at June 30, 2012 by $181.1 million. Of this amount, $2.0 million is restricted. In addition, the City ended the year with negative unrestricted assets (deficit) of $141.0 million. The existence of a deficit is a result of not having assets accumulated in advance for such long-term liabilities as accrued vacation and pension obligations. Accrued vacation is paid as it is used or at termination of employment and resources are appropriated each budget year. The pension obligations have accumulated as a result of the City's actual contributions not being equal to the annual required amounts. FY 2012 marks the third year of the City's eight year plan to begin contributing 100% of the annual required contribution.
- The City's total bonded debt increased by approximately $7.5 million during the current fiscal year, due to the issuance of $111.4 million and payments of $103.9 million ($36.4 million scheduled repayments of principal and $67.5 million refunded).

OVERVIEW OF THE FINANCIAL STATEMENTS

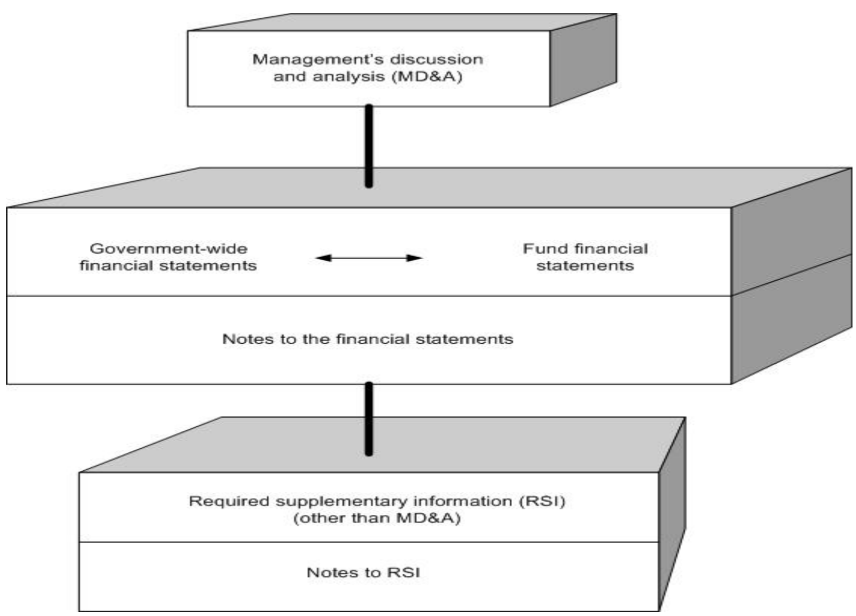
The City's basic financial statements comprise three components: *government-wide financial statements, fund financial statements, and notes to the financial statements*. This report also contains other supplementary information in addition to the basic financial statements themselves.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that 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



The government-wide financial statements provide both long-term and short-term information about the City's overall financial status. The fund financial statements focus on the individual parts of the

City government, reporting the City's operations in more detail than the government-wide statements.

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 Assets 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 assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are indicators 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 Assets and the Statement of Activities, the City is divided into three categories:

- *Governmental activities* – Most of the City's basic services are included here, such as the police, fire, public works, parks, internal service 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 separate legal entities in its report - the Peninsula Airport Commission, the Economic and Industrial Development Authorities, and the Newport News Public Schools. Although legally separate, these "component units" are important because the City is financially accountable for them, and provides operating funding.

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 State law and by bond covenants; 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 kinds of funds:

- *Governmental funds* – Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets can readily be converted to cash flow to support the operations of the City and (2) the balances remaining at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund statements.
- *Proprietary funds* – The City maintains two different types of proprietary funds. (1) Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Enterprise funds include the Public Utility Fund. (2) Internal service funds are an accounting device 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 fund* – 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 Post Employment Benefits Trust Funds and Agency Funds. These activities are reported in a separate statement of fiduciary net assets. 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. 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 post employment benefits to its employees.

Statement of Net Assets

The following table reflects the condensed net assets:

Table 1 - Summary of Net Assets (in millions):

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other assets	$ 174.5	168.9	91.2	102.1	265.7	271.0
Capital assets, net	678.4	653.7	398.8	399.2	1,077.2	1,052.9
Total assets	$ 852.9	822.6	490.0	501.3	1,342.9	1,323.9
Current and other liabilities	$ 94.1	95.5	59.0	61.0	153.1	156.5
Long-term liabilities	577.7	539.6	153.9	165.0	731.6	704.6
Total liabilities	$ 671.8	635.1	212.9	226.0	884.7	861.1
Net assets:						
Invested in capital assets, net of related debt	311.4	290.4	257.6	252.3	569.0	542.7
Restricted net assets	10.7	0.2	-	-	10.7	0.2
Unrestricted net assets	(141.0)	(103.1)	19.5	23.0	(121.5)	(80.1)
Total net assets	$ 181.1	187.5	277.1	275.3	458.2	462.8
Total liabilities and net assets	$ 852.9	822.6	490.0	501.3	1,342.9	1,323.9

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $458.2 million at the close of fiscal year 2012. By far the largest portion of the City's net assets reflects 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. The resources needed to repay the debt related to these capital assets must be provided from other sources. 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.

Less than 1% of the City's net assets are subject to external restrictions. There are no net assets available that may be used to meet the City's ongoing obligations to citizens and creditors.

<u>Governmental Activities</u>

Net assets of the City's governmental activities decreased from $187.5 million at June 30, 2011 to $181.1 million at June 30, 2012 as a result of the excess of expenditures over revenues for FY 2012 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 assets of Waterworks increased from $275.3 million to $277.1 million. The City generally can only use these net assets 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 Assets (in millions):

		Governmental Activities		Business-Type Activities		Total Primary Government	
Revenues:		2012	2011	2012	2011	2012	2011
Program revenues:							
Charges for services	$	63.3	62.7	73.3	74.5	136.6	137.2
Operating grants and contributions		41.4	45.0	-	-	41.4	45.0
Capital grants and contributions		5.0	3.2	-	-	5.0	3.2
General revenues:							
Property taxes		229.2	231.0	-	-	229.2	231.0
Other taxes		91.8	89.1	-	-	91.8	89.1
Grants and contributions not restricted to specific programs		47.1	48.2	3.5	4.8	50.6	53.0
Investment earnings		2.3	2.4	0.2	0.2	2.5	2.6
Miscellaneous		8.4	7.8	-	-	8.4	7.8
Total revenues		488.5	489.4	77.0	79.5	565.5	568.9
Expenses:							
General government		53.7	41.1	-	-	53.7	41.1
Judicial administration		7.8	7.7	-	-	7.8	7.7
Public safety		131.6	129.7	-	-	131.6	129.7
Public works		76.1	77.3	-	-	76.1	77.3
Health and welfare		49.1	54.1	-	-	49.1	54.1
Education		117.6	118.4	-	-	117.6	118.4
Parks, recreation and culture		34.7	34.4	-	-	34.7	34.4
Community development		8.7	12.7	-	-	8.7	12.7
Public utility		-	-	65.3	64.5	65.3	64.5
Interest on long-term debt		25.5	30.2	-	-	25.5	30.2
Total expenses		504.8	505.6	65.3	64.5	570.1	570.1
Excess (deficiency) before		(16.3)	(16.2)	11.7	15.0	(4.6)	(1.2)
Transfers		9.9	10.0	(9.9)	(10.0)	-	-
Increase (decrease) in net assets		(6.4)	(6.2)	1.8	5.0	(4.6)	(1.2)
Beginning Net Assets		187.5	193.7	275.3	270.3	462.8	464.0
Ending Net Assets	$	181.1	187.5	277.1	275.3	458.2	462.8

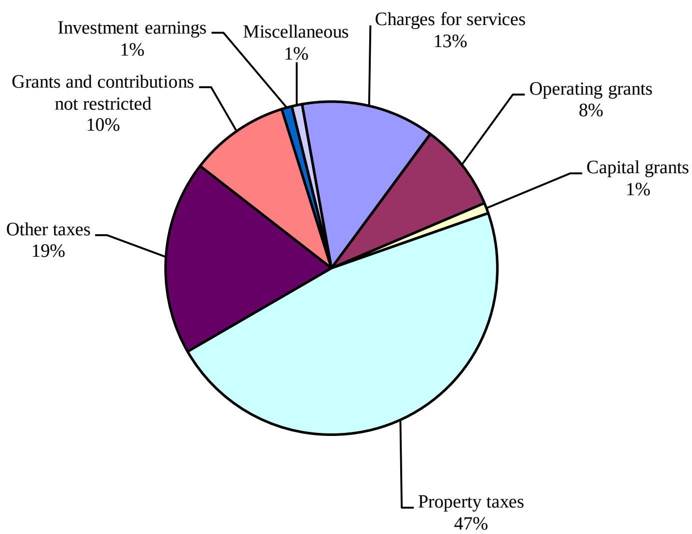
Governmental Activities

The City's total revenues from governmental activities were $488.5 million for the fiscal year ended June 30, 2012. The largest source of revenue ($229.2 million for FY 2012) for the City is real estate and personal property taxes. The City's assessed real property tax base for FY 2012 decreased 1.2%.

Approximately 66% of the City's revenue from governmental activities comes from some type of tax, and 13% comes from fees charged for services.

The City's expenses cover a wide range of services, with 26.1%, or $131.6 million, for FY 2012 related to public safety and 23.3%, or $117.6 million, for FY 2012 for education (payments to the Public Schools, a component unit).

Revenues by Source – Governmental Activities



Business-Type Activities

Net assets for the City's business-type activities increased by $1.8 million. Charges for services make up 95.2% of total revenues for business-type activities.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

General Fund

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the general fund balance was $93.4 million of which $41.4 million represents unassigned fund balance of the General Fund. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balances represent 10% of the total fund expenditures, while total fund balance represents 26%.

Debt Service Fund

The debt service fund has a fund balance of $1.2 million. During FY 2012, the fund balance decreased by $3.2 million, which is the net result of bonds issued and annual debt payments.

Bond Fund

The bond fund accounts for the proceeds of all general obligation bond issues except those of the Proprietary Funds. The bond fund accounts increased from $(15.6) million at June 30, 2011 to $(1.1) million at June 30, 2012, as a result of the bond sale in July, 2011 and the refunding completed in March, 2012.

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.

Net assets for the City's business-type activities (Waterworks) increased by $1.8 million. Charges for services make up 95.2% of total revenues for business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund (Budget Basis)
Fiscal Year 2012

		Original Budget	Final Budget	Actual (Budget Basis)
Revenues:				
Taxes	$	315,092,735	315,092,735	321,097,755
Intergovernmental		47,872,209	47,906,209	47,106,347
Other		45,936,394	45,977,563	45,442,688
Total		408,901,338	408,976,507	413,646,790
Expenditures and Transfers:				
Expenditures		371,028,106	371,103,275	366,154,466
Transfers out		37,873,232	37,974,752	42,870,572
Total		408,901,338	409,078,027	409,025,038
Change in fund balance	$	-	(101,520)	4,621,752

The difference between the original budget and the final amended budget for the City's General Fund expenditures was approximately $.17 million (increase in appropriations). The variance is mainly due to the following:

$	0.10	million	General Fund Reserve - Sanitary Sewer Extension
	0.04	million	Health Department - Settlement
	0.03	million	Circuit Court Clerk - Technology

Actual General Fund revenues and transfers from other funds were above the final budgeted revenues by $4.67 million. Expenditures and transfers out were under budget by $.05 million. This positive budget variance is a result of the spending restraints put in place during the fiscal year.

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, 2012 amounts to $1,077.2 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.

Major capital asset events during the fiscal year included the following:

Construction in progress totaled $50.9 million for governmental activities at the end of the fiscal year (including certain Public Schools projects under construction).

- Construction in progress totaled $11.3 million for business-type activities at the end of the fiscal year and relates to the following projects: Walker's Dam rehabilitation $9.3 million, Lee Hall Dam improvements $.9 million, truck chassis $.4 million and Harwoods Mill modernization $.2 million.
- **City of Newport News' Capital Assets (net of depreciation):**

	Governmental Activities		Business-Type Activities		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Land	$ 86,839,432	84,730,931	17,681,753	18,022,753	104,521,185	102,753,684
Construction in progress	50,884,734	37,164,744	11,307,371	5,290,190	62,192,105	42,454,934
Buildings	229,020,300	230,881,313	110,165,929	114,037,145	339,186,229	344,918,458
Water systems	-	-	235,691,510	236,457,672	235,691,510	236,457,672
Improvements	91,479,546	84,377,304	12,429,653	13,402,267	103,909,199	97,779,571
Machinery and equipment	48,341,714	51,227,026	11,487,059	12,006,788	59,828,773	63,233,814
Infrastructure	171,849,893	165,344,399	-	-	171,849,893	165,344,399
	$ 678,415,619	653,725,717	398,763,275	399,216,815	1,077,178,894	1,052,942,532

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 $527.8 million, a decrease of 1.0% from last year, as shown in the table below. Capital leases, landfill liability, accrued vacation, net pension obligations, other post employment 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	
		2012	2011	2012	2011	2012	2011
General obligation bonds	$	361.1	353.6	122.7	134.2	483.8	487.8
Literary loans		6.3	6.7	-	-	6.3	6.7
Revenue bonds		-	-	37.7	38.5	37.7	38.5
Total	$	367.4	360.3	160.4	172.7	527.8	533.0

The amount of the debt outstanding related to School Board activities is $91.3 million of the total outstanding general obligation bonds of the governmental activities.

The City issued new debt during the year totaling $111.5 million in the form of general obligation bonds.

The City maintains an AA rating from Standard & Poor's Corporation. Under Moody's Investors Service, the City maintains an Aa1 rating.

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 2012 for the City of Newport News was 7.4%, which is a decrease from the average for 2011 of 7.6%. The City's population was approximately 180,719 at the 2010 Census and has remained fairly constant since.

The FY 2013 approved budget for the General Fund decreased by .01% compared to the FY 2012 adopted budget. The FY 2013 budget includes 7,380 positions, a net decrease of 57 positions. Due to the declining financial market and the uncertainty due to decreased state funding, the City required all departments to meet an expenditure reduction target for FY 2013.

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 Assets
June 30, 2012

		Primary government			Discretely presented component units	
Assets		**Governmental activities**	**Business-type activities**	**Total**	**Public schools**	**Others**
Cash and cash equivalents	$	109,445,700	35,155,625	144,601,325	35,298,375	13,487,563
Restricted cash and investments		7,671,851	35,536,544	43,208,395	-	23,077,599
Accounts receivable, net		16,943,131	14,114,617	31,057,748	408,164	5,368,097
Receivable from OPEB Fund		455,708	-	455,708	-	-
Receivable from Industrial Development Authority		14,259,729	-	14,259,729	-	-
Receivable from primary government		-	-	-	6,823,693	-
Receivables from other governments		21,316,380	-	21,316,380	17,935,540	4,180,000
Inventory, at cost		1,818,384	3,332,390	5,150,774	1,042,245	109,388
Land held for lease or resale		-	-	-	-	22,896,330
Net investment in direct financing leases		-	-	-	-	2,895,389
Capital assets:						
Nondepreciable capital assets:						
Land		86,839,432	17,681,753	104,521,185	2,505,084	6,604,658
Construction in progress		50,884,734	11,307,371	62,192,105	104,108	12,675,635
Depreciable capital assets:						
Buildings		335,337,413	152,185,865	487,523,278	46,849,002	183,476,933
Improvements		170,713,423	-	170,713,423	50,933,282	14,106,455
Water system		-	398,800,044	398,800,044	-	-
Airport assets		-	-	-	-	141,491,641
Machinery and equipment		138,516,371	33,670,244	172,186,615	60,875,560	3,726,037
Infrastructure		483,284,474	-	483,284,474	-	2,543,500
Total capital assets		1,265,575,847	613,645,277	1,879,221,124	161,267,036	364,624,859
Less accumulated depreciation		(587,160,228)	(214,882,002)	(802,042,230)	(85,244,141)	(99,670,823)
Capital assets, net		678,415,619	398,763,275	1,077,178,894	76,022,895	264,954,036
Restricted assets:						
Permanently restricted cash		1,183,546	-	1,183,546	12,147,599	-
Other assets		1,382,549	3,086,410	4,468,959	-	1,893,991
Total assets		852,892,597	489,988,861	1,342,881,458	149,678,511	338,862,393
Deferred swap outflow		-	-	-	-	5,136,002
Total assets and deferrals	$	852,892,597	489,988,861	1,342,881,458	149,678,511	343,998,395
Liabilities and Net Assets						
Liabilities:						
Accounts payable	$	13,924,023	3,145,926	17,069,949	2,760,526	4,317,391
Accrued liabilities		6,450,691	5,371,672	11,822,363	26,738,461	1,138,347
Deposits		3,485,989	3,804,499	7,290,488	-	29,114
Unearned revenue		985,726	-	985,726	549,215	-
Deferred revenue		-	34,430,193	34,430,193	-	284,050
Payable to Newport News Public Schools		6,823,693	-	6,823,693	-	-
Payable to Pension Fund		2,964,712	-	2,964,712	-	-
Payable to primary government		-	-	-	-	196,235
Payable to other governments		-	-	-	-	14,063,494
Long term liabilities:						
Due within one year		59,446,181	13,001,523	72,447,704	3,711,900	9,020,856
Due in more than one year		577,708,439	153,105,002	730,813,441	42,435,720	128,503,213
Total liabilities		671,789,454	212,858,815	884,648,269	76,195,822	157,552,700
Net assets:						
Invested in capital assets, net of related debt		311,394,219	257,644,908	569,039,127	67,370,342	141,764,407
Restricted		10,732,493	-	10,732,493	10,268,578	23,077,599
Unrestricted (Deficit)		(141,023,569)	19,485,138	(121,538,431)	(4,156,231)	21,603,689
Total net assets		181,103,143	277,130,046	458,233,189	73,482,689	186,445,695
Total liabilities and net assets	$	852,892,597	489,988,861	1,342,881,458	149,678,511	343,998,395

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Statement of Activities

Year ended June 30, 2012

		Program revenues			Net (expense) revenue and changes in net assets				
					Primary government				
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total	Public schools	Other component units
Primary government:									
Governmental activities:									
General government	$ 53,687,583	9,165,966	-	4,966,923	(39,554,694)	-	(39,554,694)		
Judicial administration	7,796,103	2,978,682	541,977	-	(4,275,444)	-	(4,275,444)		
Public safety	131,544,707	6,362,374	4,460,665	-	(120,721,668)	-	(120,721,668)		
Public works	76,076,207	37,095,768	14,727,075	-	(24,253,364)	-	(24,253,364)		
Health and welfare	49,131,969	152,235	5,055,300	-	(43,924,434)	-	(43,924,434)		
Education	117,566,704	-	14,165,160	-	(103,401,544)	-	(103,401,544)		
Parks, recreation and culture	34,690,901	7,049,949	(32,490)	-	(27,673,442)	-	(27,673,442)		
Community development	8,743,779	554,870	2,511,615	-	(5,677,294)	-	(5,677,294)		
Interest on long-term debt	25,545,336	-	-	-	(25,545,336)	-	(25,545,336)		
Total governmental activities	504,783,289	63,359,844	41,429,302	4,966,923	(395,027,220)	-	(395,027,220)		
Business-type activities:									
Public utility	65,287,629	73,337,822	-	3,475,356	-	11,525,549	11,525,549		
Total business-type activities	65,287,629	73,337,822	-	3,475,356	-	11,525,549	11,525,549		
Total primary government	$ 570,070,918	136,697,666	41,429,302	8,442,279	(395,027,220)	11,525,549	(383,501,671)		
Component units:									
Public schools	$ 315,716,709	6,108,282	70,250,802	2,537,511				(236,820,114)	-
Peninsula Airport Commission	16,260,910	9,862,321	-	7,596,352				-	1,197,763
Economic and Industrial Development Authorities	19,033,178	25,738,610	-	-				-	6,705,432
Total component units	$ 351,010,797	41,709,213	70,250,802	10,133,863				(236,820,114)	7,903,195
General revenues:									
(6,705,432) City Taxes:									
General property					229,194,920	-	229,194,920	-	-
E-911 service					699,378	-	699,378	-	-
Local sales and use					22,022,527	-	22,022,527	-	-
Consumers' utility					5,891,989	-	5,891,989	-	-
Consumption					653,430	-	653,430	-	-
Telecom sales and use					11,681,054	-	11,681,054	-	-
Business license					16,109,141	-	16,109,141	-	-
Rental car					1,229,911	-	1,229,911	-	-
Motor vehicle license					3,917,451	-	3,917,451	-	-
Bank stock taxes					847,745	-	847,745	-	-
Recordation and wills					1,407,159	-	1,407,159	-	-
Tobacco					4,799,234	-	4,799,234	-	-
Hotel and motel room tax					3,191,992	-	3,191,992	-	-
Restaurant food tax					18,835,979	-	18,835,979	-	-
Amusement					457,436	-	457,436	-	-
Total City Taxes					320,939,346	-	320,939,346	-	-
Grants and contributions not restricted to specific programs					47,106,347	-	47,106,347	141,203,790	-
Payment from the City					-	-	-	98,754,050	-
Investment earnings					2,270,634	213,743	2,484,377	18,784	469,101
Miscellaneous					8,441,859	-	8,441,859	-	1,705,112
Transfers					9,891,000	(9,891,000)	-	-	-
Total general revenues and transfers					388,649,186	(9,677,257)	378,971,929	239,976,624	2,174,213
Change in net assets					(6,378,034)	1,848,292	(4,529,742)	3,156,510	10,077,408
Net assets at beginning of year					187,481,177	275,281,754	462,762,931	70,326,179	176,368,287
Net assets at end of year					$ 181,103,143	277,130,046	458,233,189	73,482,689	186,445,695

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Balance Sheet

Governmental Funds

June 30, 2012

Assets		General fund	Debt service fund	Bond fund	Nonmajor governmental funds	Total governmental funds
Cash and cash equivalents	$	69,616,200	119,433	-	36,935,359	106,670,992
Restricted cash		-	-	7,671,851	-	7,671,851
Accounts receivable, net		14,192,147	-	-	2,750,874	16,943,021
Receivable from component unit		14,259,729	-	-	-	14,259,729
Receivable from other funds		515,294	-	-	888,362	1,403,656
Receivables from other governments		16,331,886	-	-	4,984,494	21,316,380
Inventory, at cost		1,152,970	-	-	-	1,152,970
Restricted assets:						
Permanently restricted cash		-	1,183,546	-	-	1,183,546
Total assets	$	116,068,226	1,302,979	7,671,851	45,559,089	170,602,145
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	$	8,088,169	48,933	1,491,221	3,543,039	13,171,362
Accrued liabilities		163,098	70,500	431,676	266,499	931,773
Deposits		3,485,989	-	-	-	3,485,989
Deferred revenue		6,932,560	-	-	315,616	7,248,176
Unearned revenue		985,726	-	-	-	985,726
Payable to Newport News Public Schools		-	-	6,823,693	-	6,823,693
Payable to Pension Fund		2,964,712	-	-	-	2,964,712
Payable to other funds		-	-	-	947,948	947,948
Total liabilities		22,620,254	119,433	8,746,590	5,073,102	36,559,379
Fund balances:						
Nonspendable		15,412,699	-	-	-	15,412,699
Restricted		2,013,986	1,183,546	16,055,186	7,534,961	26,787,679
Committed		-	-	-	32,951,026	32,951,026
Assigned		34,656,608	-	-	-	34,656,608
Unassigned		41,364,679	-	(17,129,925)	-	24,234,754
Total fund balances		93,447,972	1,183,546	(1,074,739)	40,485,987	134,042,766
Total liabilities and fund balances	$	116,068,226	1,302,979	7,671,851	45,559,089	170,602,145

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 Assets
June 30, 2012

Fund balances – total governmental funds		$ 134,042,766
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Governmental capital assets	$ 1,213,043,964	
Less accumulated depreciation	(554,359,308)	
		658,684,656
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		7,248,176
Internal service funds are used by management to charge the costs of certain activities to individual funds.	22,155,967	
Adjustment to add back accrued vacation included below	248,488	
		22,404,455
Governmental funds report the effect of issuance costs when the debt is issued. These costs, less accumulated amortization, are deferred in the statement of net assets.		1,382,549
Unmatured interest payable reported in governmental activities will not be paid with current financial resources and therefore, are not reported in the funds.		(5,504,839)
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	(366,400,545)	
Literary fund bonds	(6,297,656)	
Land lease payable	(1,361,716)	
Land purchase payable	(633,334)	
Landfill liability	(5,127,000)	
Accrued vacation	(18,481,759)	
Workers' compensation and other claims	(17,221,730)	
Net pension obligations	(195,769,000)	
Net OPEB Obligations	(22,381,697)	
Incurred but not reported claims	(3,480,183)	
		(637,154,620)
Net assets of governmental activities		$ 181,103,143

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, 2012

	General fund	Debt service fund	Bond fund	Nonmajor governmental funds	Total governmental funds
Revenues:					
General property taxes	$ 229,353,329	-	-	-	229,353,329
Other local taxes	91,744,426	-	-	-	91,744,426
Licenses and permits	3,644,929	-	-	-	3,644,929
Fines and forfeitures	2,696,728	-	-	-	2,696,728
Intergovernmental	47,106,347	14,165,160	-	31,804,191	93,075,698
Charges for services	17,584,758	-	-	37,310,378	54,895,136
Interest and rent	2,107,472	-	-	156,910	2,264,382
Recovered costs	5,766,977	-	-	1,003	5,767,980
Miscellaneous	3,000,824	32,907	-	1	3,033,732
Total revenues	403,005,790	14,198,067	-	69,272,483	486,476,340
Expenditures:					
Current operating:					
General government	49,997,093	-	-	111,721	50,108,814
Judicial administration	6,733,290	-	-	-	6,733,290
Public safety	112,493,293	-	-	3,689,357	116,182,650
Public works	14,122,944	-	-	46,682,498	60,805,442
Health and welfare	38,251,063	-	-	6,402,560	44,653,623
Education	112,200,000	-	8,947,255	1,860,000	123,007,255
Parks, recreation and culture	27,284,279	-	-	136,861	27,421,140
Community development	4,791,146	-	-	2,637,888	7,429,034
Debt service:					
Principal	-	36,792,212	-	-	36,792,212
Interest and other charges	-	24,864,421	559,973	-	25,424,394
Capital outlay	-	-	22,791,675	15,091,696	37,883,371
Total expenditures	365,873,108	61,656,633	32,298,903	76,612,581	536,441,225
Excess (deficiency) of revenues over (under) expenditures	37,132,682	(47,458,566)	(32,298,903)	(7,340,098)	(49,964,885)
Other financing sources (uses):					
Transfers in	10,641,000	44,271,215	-	9,067,632	63,979,847
Transfers out	(44,730,572)	-	-	(9,358,275)	(54,088,847)
Payments to refunded bonds escrow agent	-	-	(76,684,773)	-	(76,684,773)
Premium on bonds	-	-	12,014,770	-	12,014,770
Refunded bonds issuance of debt	-	-	69,335,000	-	69,335,000
Bond and note issuance of debt	-	-	42,121,190	-	42,121,190
Total other financing sources (uses)	(34,089,572)	44,271,215	46,786,187	(290,643)	56,677,187
Net changes in fund balances	3,043,110	(3,187,351)	14,487,284	(7,630,741)	6,712,302
Fund balances (deficit) at June 30, 2011	90,404,862	4,370,897	(15,562,023)	48,116,728	127,330,464
Fund balances (deficit) at June 30, 2012	$ 93,447,972	1,183,546	(1,074,739)	40,485,987	134,042,766

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, 2012

Net change in fund balances – total governmental funds		$ 6,712,302
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	$ 38,516,705	
Plus: Capital expenditures not included in general fund capital outlays	7,149,139	
Less: Non-capitalized asset	(3,196,814)	
Depreciation expense	(26,637,284)	
		15,831,746
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.		10,088,045
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Deferred revenue decreased by this amount in the current year.		(158,409)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets:		
Principal repayments	104,389,367	
Debt issued (and related costs)	(111,456,191)	
Premium on issuance of long-term debt	(7,916,432)	
Current year loss on refunding	7,990,253	
Amortization of refunding gains (losses)	(1,418,920)	
Debt issuance costs, net of amortization	(110,615)	
		(8,522,538)
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	(120,942)	
Land purchase payable	(633,334)	
Landfill liability	226,000	
Accrued vacation	(45,007)	
Net pension obligation	(21,019,000)	
Net OPEB obligation	(6,686,759)	
Workers' compensation and other claims	(1,279,287)	
Incurred but not reported liabilities	(433,374)	
		(29,991,703)
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 assets, the lease obligation is reported as a liability.		
Payments and Write-offs on capital leases made in the current year		183,103
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).		(520,580)
Change in net assets of governmental activities		$ (6,378,034)

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA
Statement of Net Assets
Proprietary Funds
June 30, 2012

Assets	**Major Fund - Public Utility**	**Internal Service Fund**
Current assets:		
Cash and cash equivalents	$ 35,155,625	2,774,708
Restricted cash	35,536,544	—
Accounts receivable, net	14,114,617	110
Inventory	3,332,390	665,414
Total current assets	88,139,176	3,440,232
Noncurrent assets:		
Capital assets:		
Nondepreciable capital assets:		
Land	17,681,753	20,257
Construction in progress	11,307,371	—
Depreciable capital assets:		
Buildings	152,185,865	3,469,775
Improvements	—	212,993
Water system	398,800,044	—
Machinery and equipment	33,670,244	48,828,858
Total capital assets	613,645,277	52,531,883
Less accumulated depreciation	(214,882,002)	(32,800,920)
Capital assets, net	398,763,275	19,730,963
Other assets	3,086,410	—
Total noncurrent assets	401,849,685	19,730,963
Total assets	$ 489,988,861	23,171,195
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	$ 3,145,926	752,661
Accrued liabilities	5,371,672	262,567
Deferred revenue	34,430,193	—
General obligation bonds payable, net	12,124,889	—
Revenue bonds payable, net	876,634	—
Total current liabilities	55,949,314	1,015,228
Noncurrent liabilities:		
Deposits	3,804,499	—
General obligation bonds payable, net	115,872,127	—
Revenue bonds payable, net	37,232,875	—
Total noncurrent liabilities	156,909,501	—
Total liabilities	212,858,815	1,015,228
Net assets:		
Invested in capital assets, net of related debt	257,644,908	19,730,963
Unrestricted	19,485,138	2,425,004
Total net assets	277,130,046	22,155,967
Total liabilities and net assets	$ 489,988,861	23,171,195

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Funds

Year ended June 30, 2012

	Major Fund - Public Utility	Internal Service Fund
Operating revenues:		
Water sales	$ 58,502,977	-
Charges for services	12,280,099	11,685,677
Miscellaneous	2,554,746	11,734
Total operating revenues	73,337,822	11,697,411
Operating expenses:		
Personal services	21,632,442	2,788,481
Contractual services	10,836,818	91,332
Internal services	1,409,401	77,501
Materials and supplies	5,487,109	5,941,392
Depreciation	14,004,936	3,933,691
Other	4,172,499	-
Total operating expenses	57,543,205	12,832,397
Operating income (loss)	15,794,617	(1,134,986)
Nonoperating revenues (expenses):		
Interest revenue	213,743	6,252
Gain (loss) on disposal of capital assets	(4,040)	181,146
Amortization, cost of issuing bonds	(135,824)	-
Loss on long-term debt	(550,920)	-
Interest expense	(7,053,640)	-
Total nonoperating revenues (expenses)	(7,530,681)	187,398
Income (loss) before capital contributions and transfers out	8,263,936	(947,588)
Capital contributions for capital assets	3,475,356	426,874
Transfers out	(9,891,000)	-
Change in net assets	1,848,292	(520,714)
Net assets at June 30, 2011	275,281,754	22,676,681
Net assets at June 30, 2012	$ 277,130,046	22,155,967

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Statement of Cash Flows

Proprietary Funds

Year ended June 30, 2012

	Major Fund - Public Utility	Internal Service Fund
Cash flows from operating activities:		
Receipts from customers	$ 73,244,759	11,697,411
Payments to suppliers	(16,855,549)	(5,743,778)
Payments to employees	(21,549,392)	(2,788,481)
Other payments	(4,172,499)	—
Net cash provided by operating activities	30,667,319	3,165,152
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(13,936,717)	(3,007,197)
Capital asset contributions	3,475,356	426,874
Proceeds from sale of capital assets	485,231	484,541
Premium on bonds issued	1,427,771	—
Bond issuance cost	(66,863)	—
Repayment and retirement of long-term debt	(12,342,917)	—
Interest paid	(11,295,801)	—
Net cash used in capital and related financing activities	(32,253,940)	(2,095,782)
Cash flows used in noncapital financing activities - Transfer to other funds	(9,891,000)	—
Cash flows provided by investing activities - Interest received	213,743	6,252
Increase (decrease) in cash and restricted cash	(11,263,878)	1,075,622
Cash and restricted cash at beginning of year	81,956,047	1,699,086
Cash and restricted cash at end of year	$ 70,692,169	2,774,708
Reported as:		
Cash and cash equivalents	$ 35,155,625	2,774,708
Restricted cash	35,536,544	—
Total cash & cash equivalents	$ 70,692,169	2,774,708
Cash flows from operating activities:		
Operating income (loss)	$ 15,794,618	(1,134,986)
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation	14,004,936	3,933,691
Changes in assets and liabilities:		
Accounts receivable	821,571	378
Inventories	(37,231)	(107,052)
Accounts payable	1,207,603	473,121
Deferred revenue	(914,634)	—
Deposits	(209,544)	—
Total adjustments	14,872,701	4,300,138
Net cash provided by operating activities	$ 30,667,319	3,165,152

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

Assets		**Pension & Other Post Employment Benefits**	**Agency Funds**
Cash and cash equivalents	$	3,148,201	4,245,445
Cash and cash equivalents with trustee		55,182,699	–
Investments			
Corporate and government bonds		170,489,323	–
Domestic stocks		278,370,502	–
Domestic mutual funds		10,002,456	–
International stocks		82,250,230	–
International mutual funds		58,043,880	–
Real estate		86,212,063	–
Accounts receivable		3,709,527	4,015,015
Interest receivable		573,620	–
Sales receivable		1,394,883	–
Inventory		–	2,827
Total assets	$	749,377,384	8,263,287
Liabilities			
Accounts payable	$	1,675,650	1,068,237
Accrued vacation		27,295	–
Due to other governments		–	4,320,622
Due to other agencies		–	2,874,428
Purchases payable		22,618,237	–
Total liabilities		24,321,182	8,263,287
Net Assets			
Assets held in trust:			
Postemployment healthcare benefits		15,580,683	–
Employees' retirement		709,475,519	–
Total net assets		725,056,202	–
Total liabilities and net assets	$	749,377,384	8,263,287

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds - Employees' Retirement Trusts for Pension & Other Post Employment Benefits

Year ended June 30, 2012

	Pension & Other Post Employment Benefits
Additions:	
Employer Contributions:	
City General Fund	$ 29,832,578
City Contribution - General Fund	600,000
Waterworks Fund	3,930,197
School Operating Fund	7,318,237
Other Contributions:	
Additional Contribution - Schools	2,013,744
Income from Leave Exchange	167,489
Employee Buy-back	365,903
Total contributions	44,228,148
Investment income:	
Net appreciation - bonds	7,926,558
Net depreciation - stocks	(17,136,163)
Interest	5,543,764
Dividends	8,417,198
Real estate operating loss, net	4,334,454
Commission recapture	78,531
Other investment income	2,284
Total investment gain	9,166,626
Less investment expenses:	
Other investment expenses	(4,402,302)
Net investment gain	4,764,324
Total increase	48,992,472
Deductions:	
Benefits paid to participants	70,069,836
Administrative expenses	804,212
Total deductions	70,874,048
Net increase	(21,881,576)
Net assets held in trust for pension benefits at June 30, 2011	746,937,778
Net assets held in trust for pension benefits at June 30, 2012	$ 725,056,202

See accompanying notes to basic financial statements.

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(1) Summary of Significant Accounting Policies

(a) The Reporting Entity

The City of Newport News, Virginia (the City or the 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 statewide 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 water system administered by the Newport News Department of Public Utilities.

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

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

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

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

- The Newport News Public Schools (Public 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, 24 elementary, seven middle, and 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.

- The Economic and Industrial Development Authorities (E/IDA) are 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, and promotes both economic and industrial development and growth in the City, and includes the Parking Authority. The City Council approves the E/IDA's budget. Separate audited financial statements are available from E/IDA, at Department of Planning and Development, 2400 Washington Avenue, Newport News, Virginia 23607.

- The Peninsula Airport Commission (PAC) is a legally separate entity included in the City's financial statements due to financial/legal inter-dependency with the City. The PAC operates the Newport News/Williamsburg International Airport. The City approves PAC's budget and appoints four of their six board members. Separate audited financial statements are available from PAC at 900 Bland Boulevard, Newport News, Virginia 23602.

(b) Government-wide and Fund Financial Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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. 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 within 30-45 days after year-end. Expenditures, other than interest on long-term debt which is recorded when due, are recorded when the related fund liability is incurred.

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 deferred 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 primarily self-supporting through user charges. This fund services its own debt and construction projects and records the acquisition of its depreciable assets and land.

Additionally, the City reports the following fund types:

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. The City's pension plan covers all full-time City and School employees who are not covered under the Virginia Retirement System (VRS). A supplement plan is provided for School employees covered under VRS. All City employees hired on and after March 1, 2010 are covered under VRS and excluded from the City's pension fund. All School employees hired or rehired on or after July 1, 2009 are excluded from the City's pension fund. The City's Pension Fund is accounted for in essentially the same manner as proprietary funds.

Other Post Employment Benefits' (OPEB) Fund accounts for all contributions and investments accumulated for employees' medical benefits and life insurance coverage at retirement. The fund pays for all related expenses incurred as well as health, dental and life insurance benefits. The City's OPEB Fund covers all full-time City employees hired prior to March 1, 2010. All City employees hired on or after March 1, 2010 are participating in the Health Reimbursement Arrangement Plan but may elect to participate in the health and dental insurances with no contribution provided by the City's OPEB Fund. Effective July 1, 2009, Newport News School System separated from the City's OPEB Fund and established a separate Trust. The City's OPEB Fund is accounted for in essentially the same manner as proprietary funds.

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 and do not involve 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.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the government-wide financial statements and the fund financial statements of the enterprise fund type follow all applicable GASB pronouncements and all Financial Accounting Standards Board (FASB) pronouncements and predecessor APB Opinions and

Accounting Research Bulletins issued on or before November 30, 1989 that do not contradict or conflict with GASB pronouncements. Under paragraph 7 of Statement No. 20, the City has elected not to apply FASB pronouncements issued after November 30, 1989.

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

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

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 and documents otherwise.

(d) Cash and Cash Equivalents and Investments

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

Investments are stated at fair value, except for cash equivalents where cost approximates fair value. Retirement plan investments are reported at fair value. Plan short-term investments are reported at cost, approximate 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 or as "internal balances" in the statement of net assets. All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are 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 2012 was $1.10 per $100 of assessed value.

Personal Property – The City levies personal property taxes on motor vehicles and tangible personal business property. These levies are made each year as of January 1 with payment due the following June 5 and December 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 2012 tax rates per $100 of assessed value were:

Mobile homes	$1.10
Trawlers	$0.90
Pleasure boats	$1.00
Machinery & Tools	$3.75
Motor Vehicles	$4.25

(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, 2012 is composed of the following:

General Fund –		
Taxes receivable:		
Real Estate	$	1,416,344
Personal Property		2,828,893
Total Taxes	$	4,245,237
Special Revenue Funds – Accounts receivable	$	687,402
Public Utility Fund - Accounts receivable	$	651,008

(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 purchase 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 or business-type activities column in the government-wide financial statements. Beginning in FY 2009, capital assets are defined by the government as assets with an initial, individual cost of more than $5,000. At the end of June 30, 2008, the capitalization threshold was $2,000. The government applied the $5,000 threshold prospectively. 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 $103,946 was capitalized during fiscal year 2012.

Under Virginia law, certain property maintained by the School Board is subject to 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. At June 30, 2012, the City holds capital assets related to school property with a net book value of $146,860,165.

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

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

(i) Land Held for Resale

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

(j) Compensated Absences

City employees are granted vacation and sick pay in varying amounts as services are provided. They may accumulate, subject to certain limitations, unused vacation leave, and upon retirement, termination or death, may be compensated for certain amounts at their then current rates of pay. The costs of accumulated vacation are accrued as a liability 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 liability is recorded by the City when paid. Upon termination, City employees are not paid for accumulated sick leave. Unused sick leave is added to the actual years of 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.

The Public Schools Component Unit employees are granted vacation and sick pay in varying amounts as services are provided. They may accumulate, subject to certain limitations, unused vacation leave, and upon retirement, termination or death, may be compensated for certain amounts at their then current rates of pay. Upon termination, School Board employees are not paid for accumulated sick leave. Upon retirement, sick leave may be taken in cash at $30 per day depending upon employment status (maximum payment of $5,000) or obtain additional service credit towards their retiree health insurance subsidy. Effective July 2, 2011, all future retirees will have their retiree health insurance subsidy based on years of service rather than sick leave. Anyone that retired effective July 1, 2011 could have elected to use their sick leave under the old policy for OPEB contributions or the new policy. That election pertained only to that one date.

(k) Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, 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. Bond issuance costs are reported as other assets and amortized over the term of the related debt.

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.

(l) Fund Equity/Net Assets

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted, and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through State statute. In the fiduciary fund financial statements, net assets of the Pension & Other Post Employment Benefits Trust Funds are held in trust for the payment of retiree pension, health and life insurance benefits.

Effective in fiscal year 2011, the Governmental Accounting Standards Board issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). Under GASB 54, 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 externally imposed by creditors or imposed by law.

Committed fund balance – Consists of amounts that can only be used for specific purposes imposed by a formal policy, resolution or ordinance adopted by City Council, the City's highest level of decision-making authority.

Assigned fund balance – Consists of amounts which the City intends to use for specific purposes, but which are neither restricted nor committed as previously defined. In the General Fund, assigned amounts represent intended uses established by City Council, or as delegated to the City Manager. With the exception of the General Fund, this is the residual fund balance of the classification for all governmental funds with positive balances.

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 GASB 54, 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. For FY 2012, the bond fund had a negative residual amount of $17.1 million due to expenditures made prior to receipt of bond proceeds.

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 2012, the General fund's unassigned fund balance is 10% of the General fund's 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 would be 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.

Details of the Fund balance classifications of the Governmental funds at June 30, 2012 are as follows:

Function/Purpose	Nonspendable	Restricted	Committed	Assigned	Unassigned
General fund					
Inventories	$ 1,152,970	$ -	$ -	$ -	$ -
Long-term note receivable	14,259,729	-	-	-	-
General government:					
Administration	-	-	-	241,440	-
Self insured activities	-	-	-	17,000,000	-
Projects	-	-	-	12,374,743	-
Judicial administration	-	-	-	878	-
Public safety	-	-	-	3,371,226	-
Public works	-	1,752,346	-	215,541	-
Health and welfare	-	-	-	44,797	-
Park, recreation, and cultural	-	261,640	-	1,379,218	-
Community development	-	-	-	6,475	-
Imprest funds	-	-	-	22,290	-
Unassigned					41,364,679
Total General Fund	$ 15,412,699	$ 2,013,986	$ -	$ 34,656,608	$ 41,364,679
Other Funds					
Debt Service	$ -	$ 1,183,546	$ -	$ -	$ -
Bond Fund Projects	-	16,055,186	-	-	(17,129,925)
Special Revenue	-	7,089,601	4,532,877	-	-
Capital Projects	-	445,360	28,418,149	-	-
Total Other Funds	$ -	$ 24,773,693	$ 32,951,026	$ -	$ (17,129,925)
	$ 15,412,699	$ 26,787,679	$ 32,951,026	$ 34,656,608	$ 24,234,754

Net assets are comprised of three categories: (1) net assets invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The first category represents the portion of net assets that is associated with non-liquid, capital assets, less the associated outstanding debt. Restricted net assets reflect the assets whose use is restricted by outside parties or legal constraints. Net assets, which are neither restricted nor invested in capital assets, are reported as unrestricted net assets.

Restricted net assets on the government-wide Statement of Net Assets are composed of the following funds:

	Governmental Activities	Business-type Activities	Total
General fund			
Public works	1,752,346	-	1,752,346
Parks, recreation, and cultural	261,640	-	261,640
Other funds			
Debt Service	1,183,546	-	1,183,546
Special Revenue	7,089,601	-	7,089,601
Capital Projects	445,360	-	445,360
Public Utilities	-	-	-
Total restricted net assets	10,732,493	-	10,732,493

(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.

(2) Deposits and Investments

Deposits

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

To increase returns and minimize fees, the City follows the practice of pooling cash and investments of all funds held with the City Treasurer except for certain restricted funds requiring separate tracking or held by outside custodians. At year-end, the government's cash and investment balances were as follows:

	Carrying amount
Cash and deposits:	
Cash on hand	$ 122,678
Deposits with banks	25,753,681
Total cash and deposits	25,876,359
Investments:	
Local Government Investment Pool (LGIP)	183,651,102
Deposits with banks – Money market accounts	8,634,573
Deposits with banks – Repurchase agreements	2,742,359
Commonwealth cash reserve	3,392,928
VA SNAP	39,478,408
Common Stock – IDA	890
Debt Service – QZAB Sinking Fund	1,183,546
IDA escrow funds	142,083
Total deposits and investments	$ 265,102,248

Cash and investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

Statements of net assets:	June 30, 2012
Primary Government:	
Cash and cash equivalents	$ 144,601,325
Restricted cash	44,391,941
Component Units:	
Cash and cash equivalents	48,785,938
Restricted cash	23,077,599
Fiduciary Funds:	
Cash and cash equivalents – Agency Funds	4,245,445
Total cash and investments	$ 265,102,248

Investment Policy

In accordance with the Code of Virginia and other applicable law, including regulations, the City Investment Policy (Policy) permits investments in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivision thereof, obligations of the International Bank for Reconstructions and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool), the State Non-Arbitrage Pool ("SNAP") or similar fund, Open-end mutual funds (provided the funds are registered under the Security Act of Virginia or the Federal Investment Act of 1940), and negotiable certifications of deposits and negotiable bank deposit notes of domestic banks and domestic offices of foreign banks with a rating of at least A-1/P-1.

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

Interest Rate Risk: As a means of limiting exposure to fair value losses arising from rising interest rates, investment maturity is managed to proceed or coincide with expectance need of funds. The City's Policy limits the investment of operating funds to investments with a stated maturity of no more than thirty-six (36) months from the date of purchase. Purchases of securities are 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, 2012, 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, 2012, were fully insured or collateralized by securities held in the name of the City of Newport News 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, 2012, were rated by Standard & Poors and Moody. The ratings are presented below using the Standard & Poors rating scale. The component units, School Boards and IDA, are pooled with the city and not separately identified.

Assets held by the Treasurer	**Fair Value**	**Credit Rating**	**Weighted Average Maturity (Years)**
Local Government Investment Pool (LGIP)	$ 183,651,102	AAAm	N/A
Commonwealth Cash Reserve (AIM) – Underlying:			
U.S. Agencies	3,139,887	AA+	0.00
U.S. Agencies	100,149	AA	0.00
U.S. Agencies	100,005	AA-	0.00
U.S. Agencies	52,887	AAAm	0.00
VA SNAP	39,478,408	AAAm	0.00
Total Deposits and Investments	$ 226,522,438		

N/A – Not applicable

Deposits of Pension and Other Post Employment Benefits (OPEB) Funds

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

	Carrying amount
Cash and deposits:	
Deposits with banks	$ 1,189,468
Deposits with banks – Repurchase agreements	1,958,733
Pension trust fund money markets	55,182,699
Total cash and deposits	$ 58,330,900
Investments:	
Common & international stocks	$428,667,068
Corporate and government bonds	170,489,323
Pension fund real estate funds	86,212,063
Total deposits and investments	$743,699,354

The Pension and OPEB funds' cash and investment as of June 30, 2012 are classified in the accompanying financial statements as follows:

	June 30, 2012
Cash and cash equivalents	$ 3,148,201
Cash and cash equivalents with trustee	55,182,699

Investments	
Corporate and government bonds	170,489,323
Common stock	278,370,502
International stock	92,252,686
International emerging markets	58,043,880
Real estate	86,212,063
Total deposits and investments	$743,699,354

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 A or higher by two of three nationally known security rating concerns, federally insured mortgages under Titles 203, 207, 220 and 221 of the National Housing Act, equities, certificates of deposit, guaranteed investment contracts and real estate. Pension Trust Fund investments are subject to restrictions placed by policies of the City Council and the Retirement Board.

Credit Risk of Pension Funds

The credit risk profile for the Pension Funds securities by investment type as of June 30, 2012 is as follows:

		S & P's Ratings as of June 30, 2012				
	TOTAL	**AAA**	**AA**	**A**	**BBB**	**Not Rated**
Investment Types						
Asset-backed	$ 17,652,546	13,704,517	775,872	-	-	3,172,157
Corporate Bonds	51,944,873	430,410	6,287,281	41,783,910	2,230,192	1,213,080
Foreign Currency	351,300	-	-	-	-	351,300
Mortgage-backed	66,755,850	6,027,137	47,120,688	-	-	13,608,025
Municipals	408,190		408,190			-
Mutual Funds	120,545,268	-	-	-	-	120,545,268
Real Estate Inv.	14,768,807	-	-	-	-	14,768,807
Short-Term	54,331,372	-	-	-	-	54,331,372
U.S. Agencies	14,994,478	-	14,714,650	-	-	279,828
U.S. Treasury	19,232,719	-	-	-	-	19,232,719
Warrants	-	-	-	-	-	-
Non-fixed Assets	365,564,574	-	-	-	-	365,564,574
Total	$ 726,549,977	20,162,064	69,306,681	41,783,910	2,230,192	593,067,130

Concentration of Credit Risk – Pension Fund

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

Custodial Risk – Pension and OPEB Funds

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

Foreign Currency Risk – Pension Fund

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

2012 Foreign Currency Risk

Investment	Currency	Fair Value
Cash equivalent	Euro currency	$ 16,030
Cash equivalent	Japanese yen	9,283
Common stock	Pound sterling	35,769
Total		$ 61,082

Interest Risk – Pension Fund

The Pension Fund's investment policy does not address investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investment policy defines the investment objectives for both the passive and actively managed segments of the fixed income portfolio. The objective of the passive segment is to replicate the return of the Barclays Aggregate Bond Index thus providing broad diversification that would be impractical to achieve in an actively managed portfolio. The objective of the actively managed fixed income portfolio is to outperform the Barclays Aggregate Bond Index over a moving 3-5 year range, with the exception of long duration fixed income, which has an objective of outperforming the Barclays Capital Long Government/Credit Index over a moving 3-5 year range. The fair value of the Pension Fund's fixed income portfolio consisted of the following investment and maturities as of June 30, 2012:

Investment Type	Fair Value	< 5 years	5 - 10	10 - 15	15 - 20	> 20 years
US Government	$ 33,526,713	$ 14,488,569	$ 3,176,981	$ 6,343,606	$ 1,130,814	$ 8,386,743
Municipal	408,190	-	-	-	-	408,190
Corporate Bonds	52,188,422	19,136,279	22,375,532	2,939,203	3,983,187	3,754,221
MTGE	85,108,880	74,988,146	10,120,734	-	-	-
Bond Mutual Funds	-	-	-	-	-	-
Total	$ 171,232,205	$ 108,612,994	$ 35,673,247	$ 9,282,809	$ 5,114,001	$ 12,549,154

(3) Accounts Receivable

Net Accounts receivable in the statement of net assets are as follows:

		Governmental activities	Business-type activities
Taxes receivable:			
Real Estate	$	6,168,883	-
Personal Property		3,775,179	-
Total taxes receivable, net		9,944,062	-
Accounts receivable		6,999,069	14,114,617
Total receivables, net	$	16,943,131	14,114,617

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

		General	Public Utility	Fiduciary Funds	Nonmajor Funds	Total
Receivables:						
Taxes	$	14,189,299	-	-	-	14,189,299
Accounts		4,248,085	14,765,625	7,724,542	3,438,276	30,176,528
Intergovernmental:						
Federal		2,873,002	-	-	1,991,499	4,864,501
State		13,458,884	-	-	2,992,995	16,451,879
Gross receivables		34,769,270	14,765,625	7,724,542	8,422,770	65,682,207
Less allowance for doubful accounts		(4,245,237)	(651,008)	-	(687,402)	(5,583,647)
Net total receivables	$	30,524,033	14,114,617	7,724,542	7,735,368	60,098,560

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, deferred revenue of $0.3 million was reported in the governmental nonmajor funds. The general fund deferred revenue of $6.9 million includes approximately $6.8 million in property tax deferrals.

(4) Capital Assets, Net

Capital asset activity for the year ended June 30, 2012 was as follows:

Primary Government

		Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Governmental activities:					
Capital assets, not being depreciated:					
Land	$	84,730,931	2,108,501	-	86,839,432
Construction in progress		37,164,744	46,945,665	33,225,675	50,884,734
Total capital assets, not being depreciated		121,895,675	49,054,166	33,225,675	137,724,166
Capital assets, being depreciated:					
Buildings		330,965,603	4,371,810	-	335,337,413
Improvements		157,701,477	13,011,946	-	170,713,423
Machinery and equipment		135,178,337	8,389,314	5,051,280	138,516,371
Infrastructure		468,679,881	14,604,593	-	483,284,474
Total capital assets being depreciated		1,092,525,298	40,377,663	5,051,280	1,127,851,681
Less accumulated depreciation for:					
Buildings		100,084,290	6,232,823	-	106,317,113
Improvements		73,324,173	5,909,704	-	79,233,877
Machinery and equipment		83,951,311	10,329,349	4,106,003	90,174,657
Infrastructure		303,335,482	8,099,099	-	311,434,581
Total accumulated depreciation		560,695,256	30,570,975	4,106,003	587,160,228
Total capital assets being depreciated, net		531,830,042	9,806,688	945,277	540,691,453
Capital assets, net	$	653,725,717	58,860,854	34,170,952	678,415,619

Depreciation expense for governmental activities was charged to functions of the primary government as follows:

General Government	$	2,558,302
Judicial Administration		414,070
Public Safety		4,168,014
Public Works		9,412,242
Health and Welfare		176,029
Education		4,647,494
Parks, Recreation and Culture		4,627,771
Community Development		598,968
Non-departmental		34,394
Internal Service Fund		3,933,691
	$	30,570,975

Construction in progress for the City at June 30, 2012 is composed of the following project authorizations and contract commitments (in millions):

	Project Authorization	Expended as of June 30, 2012	Balance of Authorization	Contract Commitments (Encumbrances)	Future Funding Requirements
General Government	$ 21.0	1.2	19.8	2.7	15.8
Judicial	0.7	0.3	0.4	-	-
Health & Welfare	0.2	0.1	0.1	-	-
Public Safety	10.6	6.4	4.2	-	-
Public Works	69.5	15.3	54.2	8.2	14.3
Parks and Recreation	7.9	9.2	(1.3)	2.7	1.8
Economic Development				-	
and Urban Renewal	20.8	4.5	16.3	6.5	8.4
Public Schools	15.9	9.9	6.0	-	7.7
Totals	$ 146.6	46.9	99.7	20.1	48.0

Business-type Activities:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Public Utility:				
Capital assets, not being depreciated:				
Land	$ 18,022,753	-	341,000	17,681,753
Construction in progress	5,290,190	6,394,043	376,862	11,307,371
Total capital assets, not being depreciated	23,312,943	6,394,043	717,862	28,989,124
Capital assets, being depreciated:				
Buildings	152,185,865	-	-	152,185,865
Improvements	393,304,285	5,986,126	490,367	398,800,044
Machinery and equipment	32,434,373	2,039,007	803,136	33,670,244
Total capital assets being depreciated	577,924,523	8,025,133	1,293,503	584,656,153
Less accumulated depreciation for:				
Buildings	38,148,720	3,871,217	-	42,019,937
Improvements	143,444,346	7,584,998	350,463	150,678,881
Machinery and equipment	20,427,585	2,548,719	793,120	22,183,184
Total accumulated depreciation	202,020,651	14,004,934	1,143,583	214,882,002
Total capital assets being depreciated, net	375,903,872	(5,979,801)	149,920	369,774,151
Capital assets, net	$ 399,216,815	414,242	867,782	398,763,275

Depreciation expense for business-type activities was charged to functions of the primary government as follows:

Public Utility	$14,004,935

Land held for resale in the amount of $10,548,386 consists of land purchased by the Department of Public Utilities specifically for a raw water supply project that was discontinued and are assets not needed or used for water system operations.

Discretely Presented Component Units

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Public Schools:				
Capital assets, not being depreciated:				
Land	$ 2,505,084	-	-	2,505,084
Construction in progress	4,709,058	1,857,706	6,462,656	104,108
Total capital assets, not being depreciated	7,214,142	1,857,706	6,462,656	2,609,192
Capital assets, being depreciated:				
Buildings	46,332,342	516,660	-	46,849,002
Improvements	42,996,178	7,937,104	-	50,933,282
Machinery and equipment	57,777,980	5,507,343	2,409,763	60,875,560
Total capital assets being depreciated	147,106,500	13,961,107	2,409,763	158,657,844
Less accumulated depreciation for:				
Buildings	26,585,253	766,099	-	27,351,352
Improvements	14,898,582	2,047,290	-	16,945,872
Machinery and equipment	39,051,370	4,278,003	2,382,456	40,946,917
Total accumulated depreciation	80,535,205	7,091,392	2,382,456	85,244,141
Total capital assets being depreciated, net	66,571,295	6,869,715	27,307	73,413,703
Capital assets, net	$ 73,785,437	8,727,421	6,489,963	76,022,895

Depreciation of $7,091,392 was charged to the Public School's governmental functions.

Loss on disposal of assets of $27,307 is charged $16,506 to the Transportation services function and $10,801 to the Business and Support services function.

Construction in progress for the Public Schools at June 30, 2012 is composed of project authorizations of $16,237,251 amounts expended through June 30, 2012 of $3,014,124 with a remaining balance of $13,223,127.

		Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
E/IDA:					
Capital assets, not being depreciated -					
Construction in progress	$	5,383,982	2,064,881	-	7,448,863
Capital assets, being depreciated:					
Infrastructure		2,543,500	-	-	2,543,500
Buildings		184,641,733	-	1,164,800	183,476,933
Improvements		13,961,916	144,539	-	14,106,455
Machinery and equipment		84,674	-	-	84,674
Total capital assets being depreciated		201,231,823	144,539	1,164,800	200,211,562
Less accumulated depreciation for:					
Infrastructure		522,302	97,768	-	620,070
Buildings		29,277,369	4,291,662	-	33,569,031
Improvements		5,968,015	360,430	-	6,328,445
Machinery and equipment		84,674	-	-	84,674
Total accumulated depreciation		35,852,360	4,749,860	-	40,602,220
Total capital assets being depreciated, net		165,379,463	(4,605,321)	1,164,800	159,609,342
Capital assets, net	$	170,763,445	(2,540,440)	1,164,800	167,058,205

		Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
PAC:					
Capital assets, not being depreciated -					
Land	$	6,604,658	-	-	6,604,658
Construction in progress		4,032,145	4,925,725	3,731,098	5,226,772
Total capital assets not being depreciated		10,636,803	4,925,725	3,731,098	11,831,430
Capital assets, being depreciated:					
Airfield		75,185,012	2,442,993	-	77,628,005
Terminal		61,767,735	243,289	-	62,011,024
Other		1,852,612	-	-	1,852,612
Machinery and equipment		2,596,547	1,044,816	-	3,641,363
Total capital assets being depreciated		141,401,906	3,731,098	-	145,133,004
Less accumulated depreciation for:					
Airfield		29,470,852	3,465,504	-	32,936,356
Terminal		20,481,979	2,308,283	-	22,790,262
Other		1,852,612	-	-	1,852,612
Machinery and equipment		1,299,990	189,383	-	1,489,373
Total accumulated depreciation		53,105,433	5,963,170	-	59,068,603
Total capital assets being depreciated, net		88,296,473	(2,232,072)	-	86,064,401
Capital assets, net	$	98,933,276	2,693,653	3,731,098	97,895,831

(5) Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2012, is as follows:

Receivables/payables between other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Gov. Fund: Wastewater	$ 59,586
General Fund	OPEB Fund	455,708
Pension Fund	General Fund	2,964,712
Nonmajor Gov. Fund: Gen. Cap. Imp. Fund	Nonmajor Gov. Fund: Capital Project Grants	888,362

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.

Receivables/payables between Primary Government and component units:

Receivable Entity	Payable Entity	Amount
City of Newport News	Industrial Development Authority	$14,259,729
Newport News Public Schools	City of Newport News	6,823,693

The IDA Payable of $14,259,729 represents the outstanding balance of the City's financing of the Applied Research Center (ARC). The repayment includes interest at 3.729%. The IDA's annual payments to the City represent net revenues from the ARC.

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

	Transfers to Other Funds Operating	Transfers from Other Funds Operating
General Fund	$ 44,730,572	10,641,000
Debt Service Fund	-	44,271,215
Nonmajor governmental funds	9,358,275	9,067,632
Public Utility	9,891,000	-
Total interfund transfers	$ 63,979,847	63,979,847

Transfers are used when another governmental 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) Capital 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, 2012 were as follows:

Years ending June 30:	
Land Parcel	
2013	$ 270,811
2014	270,811
2015	270,811
2016	270,811
2017	270,811
2018	270,811
Total	$ 1,624,866
Less Interest	263,150
Present Value	$ 1,361,716

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

The School Board has entered into three lease agreements for financing the acquisition of property and equipment. One of the machinery and equipment leases was completed during the year and a capital lease for buildings was paid off early during the fiscal year. Only one capital lease for machinery and equipment remains at June 30, 2012. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

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

Machinery and equipment	$ 972,182
Less accumulated depreciation	(299,757)
Net assets acquired through capital leases	$ 672,425

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, were as follows:

Years ending June 30:		
2013	$	225,540
2014		225,540
Total minimum lease payments	$	451,080
Less amounts representing interest		(27,163)
Present value of minimum capital lease payments	$	423,917

(c) Operating Lease Payments – Component Units

The School Board leases machinery, equipment and buildings under non-cancellable operating leases with the exception of one building that is on a month-to-month operating lease.

The E/IDA lease land and property in Newport News. Original lease terms ranged from one to twenty years. In February 2012, the City entered into a moral obligation with the Authorities to morally obligate the lease payments of the Apprentice School Parking Garage at an amount of no more than $23.5 million over the life of the lease.

PAC leases equipment under long-term non-cancelable operating leases. Original lease terms ranged from three to five years.

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

		Schools	E/IDA	PAC
Years ending June 30:				
2013	$	576,561	2,328,186	11,040
2014		580,980	2,792,896	10,120
2015		565,488	2,837,439	-
2016		570,086	2,625,375	-
2017		239,180	2,460,000	-
2018-2022		243,963	12,800,000	-
2023-2027		-	11,920,000	-
	$	2,776,258	37,763,896	21,160

(d) Operating Lease Revenue – Component Units

The Authorities have developed several properties in which they own the land and buildings. These properties were developed with the purpose of entering into lease agreements with private companies. These lease agreements are made to increase the economic activity of the City.

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

Land	$ 5,012,230
Buildings	109,128,421
Parking Lots	3,645,200
Less accumulated depreciation	(27,051,356)
Net investment in property held for lease	$ 90,734,495

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

Minimum future rental income on operating leases as of June 30, 2012 is as follows:

		E/IDA	PAC
Year ending June 30:			
2013	$	11,459,705	780,221
2014		11,950,643	744,396
2015		9,658,737	729,574
2016		8,835,565	737,200
2017		8,640,462	743,656
2018-2022		20,080,445	4,396,524
2023-2027		14,468,974	—
2028-2030		2,528,656	—
Total	$	87,623,187	8,131,571

Rental income on operating leases for year ended 2012 was $10,209,051 and $2,540,299 for E/IDA and PAC, respectively.

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

The E/IDA is lessor in two direct financing leases on various properties within the City. These lease agreements are agreements with a private company and the Newport News Public Schools to increase the economic activity in the City. During 2012, one of the two direct financing leases was terminated. The following schedule lists the composition of the net investment in the direct financing leases as of June 30, 2012:

Minimum lease payments to be received	$ 3,002,775
Less unearned income	(107,386)
Net investment in direct financing leases	$ 2,895,389

Minimum future rental income on these direct financing leases as of June 30, 2012 is as follows:

Year ending June 30:	
2013	$ 973,873
2014	973,873
2015	973,873
2016	81,156
Total	$ 3,002,775

(7) Long-Term Liabilities

(a) A summary of changes in long-term liabilities for governmental activities for the year ended June 30, 2012 follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due within one year
Bonds payable:					
General obligation bonds	$ 353,638,909	111,456,191	(103,969,598)	361,125,502	34,829,229
Deferred amounts:					
Add bonds premiums	10,535,283	12,014,770	(4,098,338)	18,451,715	2,755,817
Net loss on refunded bonds	(6,605,339)	(7,990,253)	1,418,920	(13,176,672)	1,912,460
Total bonds payable	357,568,853	115,480,708	(106,649,016)	366,400,545	39,497,506
Literary loan bonds	6,717,425	–	(419,769)	6,297,656	419,767
Land lease payable	1,544,819	–	(183,103)	1,361,716	194,396
Land purchase payable	–	633,334	–	633,334	316,667
Landfill liability	5,353,000	–	(226,000)	5,127,000	237,000
Accrued vacation	18,436,752	12,407,966	(12,362,959)	18,481,759	12,198,059
Net pension obligation	174,750,000	68,554,000	(47,535,000)	195,769,000	–
Net OPEB obligation	15,694,938	17,595,453	(10,908,694)	22,381,697	–
Workers' comp. and other claims	15,942,443	4,321,002	(3,041,715)	17,221,730	3,102,603
Incurred but not reported medical claims	3,046,809	38,118,328	(37,684,954)	3,480,183	3,480,183
Total long-term liabilities	$ 599,055,039	257,110,791	(219,011,210)	637,154,620	59,446,181

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

General obligation bonds of $53.4 million are authorized but unissued.

During the year ended June 30, 2012, the City had drawdowns of VRA loans amounting to $121,190.

On July 28, 2011, the City issued $42,000,000 principal amount of General Obligation General Improvement Bonds Series 2011A with a true interest cost of 3.31%. The net proceeds of $46,102,791 (after payment of $155,610 for underwriting fees and other issuance costs) were used to pay the costs of various capital improvement projects.

On July 28, 2011, the City issued $9,820,000 principal amount of General Obligation General Improvement Refunding Bonds Series 2011B with a true interest cost of 1.97%. The proceeds of the sale, exclusive of the accrued interest and costs of issuance, was applied to the refunding of $1,350,000 outstanding principal amount of the City's 2003B Series, $3,750,000 outstanding principal amount of the City's 2004A Series and $4,375,000 outstanding principal amount of the City's 2004D Series, each with interest rates of 5%. The net proceeds of $10,790,789 (after payment of $26,516 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 July 28, 2011 (the "Escrow Deposit Agreement"). The proceeds were invested in Government Securities. 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 general obligation bonds described above in order to reduce its annual debt service expenditures. On June 30, 2012, $10,830,000 remains outstanding. This issuance resulted in a cash flow savings of $502,334.

On March 21, 2012, the City issued $43,350,000 principal amount of General Obligation General Improvement Refunding Bonds Series 2012A with a true interest cost of 1.93%. The proceeds of the sale, exclusive of the accrued interest and costs of issuance, was applied to the refunding of $2,800,000 outstanding principal amount of the City's 2002A Series, $3,385,000 outstanding principal amount of the City's 2003B Series, $8,750,000 outstanding principal amount of the City's 2004A Series, $10,195,000 outstanding principal amount of the City's 2004D Series, $12,635,000 outstanding principal amount of the City's 2006A Series and $6,000,000 outstanding principal amount of the City's 2007A Series with average interest rates of 4%, 4.5%, 4.5%, 4.7%, 4.6% and 5% respectively. The net proceeds of $49,832,252 (after payment of $276,812 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 March 21, 2012 (the "Escrow Deposit Agreement"). The 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 general obligation bonds described above in order to reduce its annual debt service expenditures. On June 30, 2012, $49,000,000 remains outstanding. This issuance resulted in a cash flow savings of $2,661,068.

On March 21, 2012, the City issued $16,165,000 principal amount of Taxable General Obligation General Improvement Refunding Bonds Series 2012B with a true interest cost of 1.41%. The proceeds of the sale, exclusive of the accrued interest and costs of issuance, was applied to the refunding of $7,215,000 outstanding principal amount of the City's 2004B Series, $4,915,000 outstanding principal amount of the City's 2004C Series and $2,200,000 outstanding principal amount of the City's 2005A Series, each with interest rates of 5%. The net proceeds of $16,063,965 (after payment of $101,035 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 March 21, 2012 (the "Escrow Deposit Agreement"). The 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 general obligation bonds described above in order to reduce its annual debt service expenditures. On June 30, 2012, $18,670,000 remains outstanding. This issuance resulted in a cash flow savings of $1,079,298.

At June 30, 2012, approximately $45.7 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. State 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 $5.1 million liability at June 30, 2012 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 2012. Actual costs may be higher due to inflation, technology changes or regulation changes.

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Outstanding general obligation bonds at June 30, 2012, 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, 2012
VRA 93D	09/17/93	06/01/15	3.60%	$ 184,798
VRA 94A	06/02/94	01/01/16	3.60%	1,164,275
VMPL 95C	09/28/95	12/1/2016	4.25%	1,887,565
VPSA 95C	12/01/95	07/15/15	5.20%	1,413,176
VRA 96C	01/24/96	10/01/16	3.65%	887,032
VRA 97A	01/30/97	10/01/17	3.70%	1,025,808
VRA 98A	01/22/98	12/01/17	3.70%	828,860
VRA 99A	03/09/99	12/01/19	3.80%	1,293,322
VRA 00A	03/01/00	03/01/21	3.50%	1,495,039
VPSA 00B	11/16/00	07/15/21	5.15%	2,968,941
VRA 01A	04/24/01	05/01/22	4.10%	1,278,183
Series 01A	09/15/01	08/15/12	4.30%	1,250,000
VRA 02A	05/15/02	01/01/23	3.75%	1,768,860
Series 02A	09/26/02	07/01/15	3.50%	2,800,000
Series 02B	09/26/02	07/01/16	3.40%	30,520,000
Series 03B	06/03/03	11/01/23	3.80%	2,700,000
VRA 03A	06/24/03	06/01/24	3.50%	2,151,994
QZAB 03A	12/31/03	12/28/18	3.50%	1,090,819
QZAB 03B	12/31/03	12/28/18	3.50%	1,351,675
Series 04A	03/01/04	07/15/24	5.00%	3,750,000
Series 04B	03/01/04	01/15/18	4.50%	8,155,000
Series 04C	03/01/04	05/01/20	5.00%	3,015,000
VRA 04A	06/30/04	09/01/25	3.10%	2,189,508
Series 04D	12/01/04	12/01/24	5.00%	4,380,000
Series 05A	02/01/05	01/15/25	4.00%	7,500,000
VRA 05A	08/24/05	09/01/26	3.50%	2,705,629
Series 06A	02/16/06	02/01/26	4.00%	11,370,000
Series 06B	02/16/06	02/01/19	4.00%	20,100,000
VRA 06A	10/20/06	11/01/27	3.10%	2,334,701
Series 07A	04/05/07	03/01/27	4.10%	24,000,000
Series 07B	04/05/07	07/01/22	5.00%	20,215,000
VRA 07A	09/11/07	09/01/28	3.00%	2,749,080
Series 08A	04/09/08	07/28/28	4.00%	29,680,000
VRA 08	12/12/08	09/01/29	3.50%	2,789,206
Series 09A	05/06/09	06/30/30	3.40%	28,420,000
Series 09B	05/06/09	06/30/20	2.20%	13,640,000
VRA 09	12/16/09	09/01/30	3.35%	4,737,031
Series 11A	07/28/11	07/01/31	3.31%	42,000,000
Series 11B	07/28/11	07/01/19	1.97%	9,820,000
Series 12A	03/21/12	07/15/24	1.93%	43,350,000
Series 12B	03/21/12	07/15/19	1.41%	16,165,000
Totals				$ 361,125,502

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2012

Outstanding literary loans at June 30, 2012, 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, 2012
Warwick High	09/01/99	09/01/19	2%		73,600
Menchville High-2	10/01/00	10/01/20	2%		112,500
Denbigh High-2	08/01/01	08/01/21	2%		122,657
Gildersleeve Middle-2	08/15/01	08/15/21	2%		62,500
Dozier Middle	08/15/01	08/15/21	2%		62,500
Reservoir Middle	05/1/02	05/1/22	2%		62,500
Hines Middle	05/1/02	05/1/22	2%		62,500
Huntington Middle-2	09/1/02	09/1/22	2%		74,618
General Stanford	06/30/07	7/15/27	2%		5,664,281
Totals				$	6,297,656

The following table summarizes future debt service requirements as of June 30, 2012:

		General Obligation Bonds			Literary Loans	
Fiscal year ending June 30:		Principal	Interest		Principal	Interest
2013	$	34,829,229	14,134,354	$	419,767	125,953
2014		35,540,099	13,063,546		419,767	117,558
2015		35,399,848	11,577,724		419,767	109,163
2016		32,605,080	10,191,607		419,767	100,767
2017		32,026,400	8,860,267		419,767	92,372
2018 - 2022		105,844,746	29,381,131		2,067,932	336,112
2023 - 2027		65,806,839	10,796,183		1,776,878	141,743
2028 - 2032		19,073,261	1,574,727		354,011	7,080
Total future debt service	$	361,125,502	99,579,539	$	6,297,656	1,030,748

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Business-Type Activities

In conjunction with the refinancing of general obligation bonds in July 2011, Public Utilities issued $500,000 of Water Refunding Bonds Series 2011B with a true interest cost of 1.9%. The proceeds of the sale, exclusive of the accrued interest and costs of issuance, were applied to the refunding of $480,000 outstanding principal amount of Public Utilities Series 2003B with an interest rate of 4.1%. The net proceeds of $534,533 (after payment for underwriting fees and other issuance costs) were invested in Government Securities with an escrow agent to provide for all future debt service payment on the refunded bonds. Public Utilities is undertaking this refunding in order to reduce its annual debt service expenditures. On June 30, 2012, $2,770,000 remains outstanding for Public Utilities Series 2003B before the 2012A refunding is included. This issuance resulted in a cash flow savings of $26,723.

In conjunction with the refinancing of general obligation bonds in March 2012, Public Utilities issued $9,985,000 of Water Refunding Bonds Series 2012A with a true interest cost of 1.9% and $17,375,000 of Water Refunding Bonds Series 2012B with a true interest cost of 1.4%. The proceeds of the sale of Series 2012A, exclusive of the accrued interest and costs of issuance, were applied to the refunding of $10,040,000 outstanding principal amount of Public Utilities Series 2002A, 2003B and 2006A with interest rates of 4.3%, 4.1% and 4.3%, respectively. The proceeds of the sale of 2012B, exclusive of the accrued interest and costs of issuance, were applied to the refunding of $15,395,000 outstanding principal amount of Public Utilities Series 2004B and 2004C with interest rates of 3.6% and 3.9%. The net proceeds of $28,578,330 (after payment for underwriting fees and other issuance costs) were invested in Government Securities with an escrow agent to provide for all future debt service payment on the refunded bonds. Public Utilities is undertaking this refunding in order to reduce its annual debt service expenditures. On June 30, 2012, $19,395,000 remains outstanding for Public Utilities Series 2002A, 2003B, 2004B, 2004C and 2006A. This issuance resulted in a cash flow savings of $1,883,630.

A summary of changes in long-term liabilities for capital-related, business-type activities for the year ended June 30, 2012 follows:

		Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due within one year
Bonds payable:						
General obligation bonds	$	134,225,000	27,860,000	39,390,000	122,695,000	11,315,000
Revenue bonds		38,470,000	—	812,917	37,657,083	847,500
Revenue bonds - VRA		—	—	—	—	—
Deferred amounts:						
Add bond premiums		6,631,145	1,427,771	2,304,474	5,754,442	839,023
Total bonds payable	$	179,326,145	29,287,771	42,507,391	166,106,525	13,001,523
Add deposits		4,014,041	—	209,542	3,804,499	—
Total long term liabilities	$	183,340,186	29,287,771	42,716,933	169,911,024	13,001,523

Outstanding public utility bonds at June 30, 2012 are comprised of the following issues:

Public Utility Bond Series	Issue Date	Final Maturity Date	Interest Rate (At Issue)	Balance June 30, 2012
2001C	08/15/01	08/15/12	4.3%	$ 1,710,000
2002A	09/26/02	07/01/22	4.3%	2,065,000
2002B	09/26/02	07/01/16	3.8%	5,285,000
2003B	06/03/03	11/01/23	4.1%	860,000
2004B	03/01/04	01/15/18	3.6%	5,625,000
2004C	03/01/04	05/01/20	3.9%	5,415,000
2006A	02/15/06	02/01/26	4.3%	5,430,000
2006B	02/15/06	02/01/19	4.3%	7,555,000
2007B	04/05/07	07/01/22	5.1%	17,950,000
2007A-IRB	06/30/07	06/01/37	4.6%	37,657,083
2008B	04/09/08	06/30/28	4.5%	21,795,000
2009B	05/06/09	09/01/29	4.3%	21,145,000
2011B	07/28/11	07/01/19	1.9%	500,000
2012A	03/21/12	07/15/24	1.9%	9,985,000
2012B	03/21/12	07/15/19	1.4%	17,375,000
Totals				$ 160,352,083

The following table summarizes future debt service requirements of Business-type Activities as of June 30, 2012:

	Business-type Activities	
Fiscal year ending June 30:	**Principal**	**Interest**
2013	$ 12,162,500	6,401,737
2014	12,707,917	6,013,656
2015	13,484,167	5,488,843
2016	13,578,750	4,977,108
2017	13,983,333	4,525,874
2018-2022	49,900,833	16,060,695
2023-2027	22,457,917	8,155,070
2028-2032	10,910,416	4,101,075
2033-2037	11,166,250	1,710,775
Totals	$ 160,352,083	57,434,833

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, 2012 follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due within one year
Compensated absences	$ 3,806,866	2,245,450	2,096,925	3,955,391	593,309
Workers' compensation claims	1,964,500	814,428	714,428	2,064,500	412,900
Capital leases payable	1,629,988	-	1,206,071	423,917	205,691
Capital facilities notes payable	10,375,037	-	2,146,401	8,228,636	-
Other post employment benefits	27,758,185	7,143,166	5,926,175	28,975,176	-
Incurred but not reported medical claims	2,771,701	27,603,144	27,874,845	2,500,000	2,500,000
Totals	$ 48,306,277	37,806,188	39,964,845	46,147,620	3,711,900

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

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

In February 2002, the Virginia General Assembly passed Senate Bill 276 which was subsequently signed by the Governor of Virginia, that provides that localities have a tenancy in common with the school board whenever a locality incurs a financial obligation for school property which is payable over more than one fiscal year. As a result, the City records on its statement of net assets 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 Bonds and Notes have no recourse to the Authorities but must look to the property and lessee for indemnity. Approximately $6.68 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 Authorities, 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, 2012 are comprised of the following:

Bonds and notes payable	Issue date	Maturity date	Effective interest rates			Balance June 30, 2012
UPS, 04	06/04/04	07/01/15	5.58%	m	$	2,680,706
Sears	03/01/98	10/01/18	5.40%	mm		6,056,774
VSS	03/01/98	10/01/18	5.40%	mm		5,497,722
Coats and Clark	01/01/99	12/01/18	4.23%			685,723
Downtown Engineering	04/05/00	07/01/31	7.64%			18,960,000
Merchant's Walk Garage	12/21/10	12/01/20	2.70%	a		8,046,000
PrintPack	08/15/03	08/01/13	2.74%			2,220,000
City Oper Center Area	12/07/04	07/01/26	3.00%	a		1,610,000
Fountain Way Garage	12/07/04	07/01/31	4.19%	a		13,335,000
Conference Center	12/07/04	07/01/31	4.19%	a		3,185,000
Hotel Promissory Note	12/07/04	07/01/31	4.19%	a		3,040,000
Rouse Project	12/29/05	01/15/31	5.14%	a		14,545,000
Mariner's Row Garage	12/29/05	01/15/31	5.14%	a		12,125,000
$18.9 M Conference Center	06/30/06	07/01/31	4.00%	a		18,900,000
CITI A '07	02/26/07	08/01/22	6.85%			2,761,160
CITI B '07	02/26/07	08/01/22	5.59%			583,583
809 Omni Blvd - Note	08/13/07	08/13/12	1.38%			2,000,000
Totals						116,231,668
Premium on bonds payable						624,854
Discount on bonds payable						(57,752)
Add interest rate swap fair value						5,136,002
Total bonds payable, net					$	121,934,772

m balance denotes moral obligation of the City
mm balance denotes moral obligation of the City of $2 million
a denotes payment agreement with the City

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. Neither the City, the State, 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.

As of the end of the fiscal year, there are five series of the Bonds outstanding, with an aggregate principal amount payable of approximately $151 million.

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

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

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

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

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

Because interest rates have declined since the execution of the swaps, the swaps had a combined negative fair value of $5,136,002 as of June 30, 2012. If the Series 2000A or 2000B interest swaps were terminated, the Authorities would be required to pay a termination payment in the amount of the fair value of the swap as of the termination date.

The PAC Airport Improvement Revenue Bonds at June 30, 2012, are comprised of the following:

Series	Issue Date	Maturity Date	Eff. Int. Rate (%)	Balance July 1, 2011	Reductions	Balance June 30, 2012	Amt Due in one year
2001	04/15/01	07/16/21	5.05-5.5	$ 4,490,000	310,000	4,180,000	325,000
2002	07/03/02	07/01/27	4.5	1,896,699	84,339	1,812,360	87,020
2005A	12/15/05	01/15/32	4.3	6,223,492	193,259	6,030,233	201,293
2005B	12/15/05	01/15/32	5.8	2,724,809	71,145	2,653,664	75,193
Totals				$ 15,335,000	658,743	14,676,257	688,506

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

	E/IDA		PAC	
	Prinicipal	Interest	Prinicipal	Interest
Fiscal year ending June 30:				
2013	$ 8,780,466	6,088,488	688,506	709,460
2014	9,960,611	5,583,537	720,781	677,005
2015	8,269,047	5,146,025	758,891	640,083
2016	7,408,057	4,738,974	797,878	603,023
2017	9,064,681	4,387,103	837,784	563,718
2018-2022	30,702,212	16,159,361	4,898,004	2,117,244
2023-2027	23,391,594	8,928,986	3,184,473	1,076,693
2028-2032	18,655,000	2,400,223	2,789,940	326,118
Total	$ 116,231,668	53,432,697	14,676,257	6,713,344

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(8) Defined Benefit Retirement Plan

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

1. 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 post employment benefits for employees of the local government, including the Newport News School System (Schools). For those school teachers and administrative support personnel employed by the Schools, the Plan provides a small supplement to the Virginia Retirement System (VRS) plan, which covers most of Schools professional employees. The Plan has been closed to new entrants effective July 1, 2009 for Schools and March 1, 2010 for the City.

The Plan consists of two separate funds, the Pension Fund (Pension) and the Other Post Employment Benefits (OPEB) Fund. The Plan is classified as a pension trust fund and is considered part of the City's financial reporting entity. The City issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required information for the Plan.

All full-time regular employees hired prior to March 1, 2010 for the City and hired prior to July 1, 2009 for Schools are members of the Pension Fund. Employees hired after the above dates are in the Virginia Retirement System, an agent multiple-employer defined benefit pension plan administered by the Commonwealth of Virginia. For the years ended June 30, 2012 and June 30, 2011, the total payroll of the City and Schools was approximately $338.3 million and $342.9 million respectively, with approximately $248.5 million and $261.8 million paid to employees covered by the Pension Fund. At June 30, 2012, membership in the Plan consisted of:

	Retirees and Beneficiaries	Vested Terminated Employees	Active Employees Vested	Active Employees Non-Vested	Total
City general	1,030	600	1,139	217	2,986
City police and fire	726	223	705	206	1,860
Public utilities	213	107	239	35	594
School VRS	2,288	952	2,362	318	5,920
School Non-VRS	750	169	669	117	1,705
Total	5,007	2,051	5,114	893	13,065

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 and 1.85% for each year of credited service after March 1, 2010. Average Final Compensation (AFC) is defined as the average compensation paid during the member's 36 highest paid consecutive months of credited service. Employees with 30 years (25 for police officers, firefighters and deputy sheriffs) credited service may retire at any age with full benefits. Employees (other than police officers, firefighters and deputy sheriffs) with 25 years of service may retire prior to age 60 and receive a reduced benefit. Members do not contribute to the Pension Fund.

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

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

2. Concentrations

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

3. Pension Fund-Contributions Required and Contributions Made

The Pension Fund is noncontributory for employees. The plan engages an actuary to determine the Actuarially Required Contribution (ARC), sometimes referred to as the Annual Recommended Contribution. However, the City has not contributed 100% of the ARC to the Fund since 2004. In 2010, the City established an eight year funding program to begin fully funding the ARC by 2016. The City contributed 60% of the ARC in fiscal 2012 and 48% in 2011.

Contributions totaling $32,786,062 and $27,398,599 were made by the City to the Pension Fund during the years ended June 30, 2012 and June 30, 2011, respectively. The percentage of City contributions to covered payroll for the fiscal year ending June 30, 2012 was 13.2% and 10.5% for the fiscal year ending June 30, 2011.

The percentage of normal costs to covered payroll was 5.40% and 5.07% for fiscal years ending June 30, 2012 and June 30, 2011, respectively. The City's annual pension costs and net pension obligation to the Pension Fund for 2012 and 2011 were as follows:

(000's Omitted)

	2012	2011
Annual Required Contribution (ARC)	$ 55,011	$ 56,662
Interest on net pension obligation	13,543	11,353
Adjustment to ARC	(14,749)	(12,355)
Annual pension cost	53,805	55,660
Contributions made	(32,786)	(27,399)
Increase in net pension obligation	21,019	28,261
Net pension obligation, beginning of year	174,750	146,489
Net pension obligation, end of year	$ 195,769	$ 174,750

Pension Fund-Funded Status and Funding Progress

The funded status of the plan as of June 30, 2012 was as follows:

(in millions)

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Unfunded accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2012	$ 679	1,176	497	57.8%	249	-199.9%

Schedules of Funding Progress and Employer Contributions are included in the Required Supplemental Information Section.

Additional information as of the latest actuarial valuation follows:

Actuarial valuation date	7/1/12
Actuarial cost method	Entry Age
Amortization method	Closed
Remaining amortization period	28 years
Asset valuation method	Three-Year Smoothed Appreciation(Depreciation)
Actuarial assumptions:	
Investment rate of return	7.75%
Rate of salary increases	5.0%
Cost of living adjustment	1.9%
Inflation	2.8%

4. Pension Fund-Three Year Trend Information

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

(000's omitted)

Fiscal year ended	Annual Pension Cost (APC)	Percentage of APC contributed	Net Pension Obligation (asset)
June 30, 2012	$ 53,805	60.9%	$ 195,769
June 30, 2011	55,660	49.2%	174,750
June 30, 2010	40,094	52.8%	146,489

(b) Virginia Retirement System: City of Newport News (City), Newport News School System (Schools) and Peninsula Airport Commission (PAC)

1. Plan Description

The City, Schools and the PAC contribute to the Virginia Retirement System (VRS), an agent multiple-employer defined benefit pension plan administered by the VRS. In addition, VRS administers a single employer plan for all School Board non-professional employees hired on or after July 1, 2009. Those hired between July 1, 2009 and June 30, 2010 are under the provisions of Plan 1 and those hired on or after July 1, 2010 are under the provisions of Plan 2, which plans are described below.

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

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least five years of service credit or age 50 with at least ten years of service credit.

- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least five years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. The City has elected 1.85%. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report (CAFR) 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/2011-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

2. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be paid by the employer. For the year ended June 30, 2012, the City, Schools and PAC have paid their member contributions. In addition, the City, Schools and the PAC are required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The contribution rates for the fiscal year ended June 30, 2012 were 11.71%, 11.33% and 7.99% of covered annual payroll for the City, NNSS and PAC, respectively.

3. Annual Pension Cost

For the fiscal year ended June 30, 2012, the annual pension costs for VRS employees of \$2.0 million, \$17.5 million and \$0.2 million for the City, Schools and the PAC, respectively, were equal to the required and actual contributions.

The City: The City enrollment into VRS has not been included in the actuarial valuation to determine the annual pension cost, the required contribution or the new pension obligation that would be associated for this fiscal year.

Schools (Agent Multiple-Employer) and PAC: The annual required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%. The actuarial value of the Schools and the PAC assets is equal to the modified market value of assets. This method uses techniques which smooth the effects of short-term volatility in the market value of assets over a five-year period. Schools and the PAC's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued liability (UAAL) was 20 years.

Schools (Single Employer): The annual required contributions for the single employer plan were determined as part of the June 30, 2010 actuarial valuation. The actuarial assumptions included (a) a rate of return on investment of 7.0% to 7.5% (b) projected annual cost-of-living adjustments of 2.50% and salary increases that range between 3.75% and 5.60% depending upon the member's service and classification. Liabilities were determined under the Entry Age Normal actuarial cost method. There is no unfunded actuarial accrued liability at June 30, 2012 but if there is one in the future, it would be amortized as a level percentage of payroll on an open basis over a period of 20 years.

4. Schedule of Funding Progress

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

	Fiscal year ending		Annual Pension Cost (APC)	Percentage of APC contributed	Net pension obligation
Schools	06/30/12	$	17,536,019	100.0%	-
	06/30/11		14,086,314	100.0%	-
	06/30/10		18,446,055	100.0%	-
PAC	06/30/12		202,606	100.0%	-
	06/30/11		191,304	100.0%	-
	06/30/10		185,696	100.0%	-

The City was enrolled in the VRS plan effective March 1, 2010 and therefore is unable to provide the above trend information.

5. Funded Status

The City: As of June 30, 2011, the most recent actuarial valuation date, the plan was 68.46% funded. The actuarial liability for benefits was $2,263,231 and the actuarial value of assets was $1,549,376 resulting in an unfunded actuarial accrued liability (UAAL) of $713,855. The covered payroll (annual payroll of active employees covered by the plan) was $13,364,920, and the ratio of the UAAL to the covered payroll was 5.34%.

The funded status of the Virginia Retirement System (VRS) Retirement plan as of June 30, 2012 was as follows:

(in thousands)

Actuarial valuation date		Actuarial value of assets	Actual accrued liability (AAL)	Unfunded accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2011	$	1,549	2,263	714	68.46%	13,365	-5.34%

The PAC: As of June 30, 2011, the most recent actuarial valuation date, the plan was 83.18% funded. The actuarial accrued liability for benefits was $5,775,718 and the actuarial value of assets was $4,804,266 resulting in an unfunded actuarial accrued liability (UAAL) of $971,452. The covered payroll (annual payroll of active employees covered by the plan) was $2,553,442, and the ratio of the UAAL to the covered payroll was 38.04%.

The funded status of the Peninsula Airport Commission (PAC) Retirement plan as of June 30, 2012 was as follows:

(in thousands)

Actuarial valuation date		Actuarial value of assets	Actual accrued liability (AAL)	Unfunded accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2011	$	4,804	5,776	971	83.18%	2,553	-38.04%

The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

(9) Other Post Employment Benefits (OPEB) Fund

(a) City of Newport News

1. Plan Description

The OPEB Fund provides medical benefits, insurance premium payments, dental and vision insurance to retirees who enroll in the programs offered. Once a retiree has withdrawn from the OPEB Fund by terminating coverage, they are not able 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 Fund. 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 the normal social security retirement age, the retiree's coverage converts to a Medicare Supplement insurance program. Each retiree eligible to retire before July 1, 2005 is provided a life insurance benefit of 50% of salary. 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 by City Council. Since 1958, the City has allowed employees to continue their coverage after retirement.

The actual costs to the fund for the retirees for years ended June 30 are as follows:

	Health Insurance		Dental Insurance		Life Insurance	
	Participants	Costs	Participants	Costs	Participants	Costs
2012	1,286	$ 8,444,597	1,363	$ 499,626	1,711	$ 346,257
2011	1,347	$ 8,790,299	1,360	$ 503,747	1,694	$ 341,297
2010	1,408	$ 8,615,927	1,308	$ 487,528	1,669	$ 335,247

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

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

2. OPEB Fund-Contribution Required and Contributions Made

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

Contributions by the City to the OPEB Fund totaling $10.9 million, $11.8 million and $12.1 million were made during the years ended June 30, 2012, June 30, 2011 and June 30,

2010. 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:

	June 30, 2012	June 30, 2011	June 30, 2010
Annual Required Contribution	$ 17,891,772	$ 18,290,221	$ 13,411,959
Interest on net OPEB Obligation	627,798	376,117	324,493
Adjustment to annual required contribution:	(924,117)	(543,772)	(313,001)
Annual OPEB Cost	17,595,453	18,122,566	13,423,451
Contributions made	(10,908,694)	(11,830,543)	(12,132,861)
Increase (decrease) in net OPEB obligation	6,686,759	6,292,023	1,290,590
Net OPEB obligation at beginning of fiscal year	15,694,938	9,402,915	8,112,325
Net OPEB obligation at end of fiscal year	$ 22,381,697	$ 15,694,938	$ 9,402,915

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 Obligation
June 30, 2012	$ 17,595,453	62.00%	$22,381,697
June 30, 2011	$ 18,122,566	65.28%	$15,694,938
June 30, 2010	$ 19,443,687	62.40%	$ 9,402,915

OPEB Fund-Funded Status and Funding Progress

The funded status of the OPEB Fund as of fiscal, 2012, 2011 and 2010 was as follows:

(in millions)	2012	2011	2010
Actuarial value of assets	$ 15.6	$ 14.1	$ 10.4
Actuarial Accrued Liability (AAL)	216.9	232.0	237.4
Unfunded AAL (UAAL)	$ 201.3	$ 217.9	$ 227.0

(in millions)	2012	2011	2010
Funded ratio	7.0 %	6.0 %	4.0 %
Covered Payroll	$ 113.6	$ 118.6	$ 124.9
UAAL as a percentage of covered payroll	177.2 %	183.7 %	181.7 %

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

Actuarial Methods and Assumptions

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

Actuarial valuation date	7/1/12
Actuarial cost method	Projected Unit Credit
Amortization method	Level Dollar Closed
Remaining amortization period	28 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	4%
Rate of salary increases	3%
Ultimate rate of medical inflation (capped by employer policy)	1.9% and beyond
Inflation	2.8%

(b) **Newport News Schools System (Schools)**

1. Plan Description

In FY 2000, an OPEB fund was established to accumulate assets to pay for other post employment benefits. The fund is administered by the City to provide health, dental and life insurance benefits for City and School Board retirees. During FY 2010, the Schools established a separate Trust Fund apart from the City and all assets belonging to Schools were transferred to this new fund. The plan is now 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.

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

Approximately 477 Schools retirees who are grandfathered participate in the City OPEB Fund's sponsored life insurance coverage which is paid by Schools. These retirees have elected supplemental coverage under the City's OPEB fund.

The OPEB Trust Fund does not issue a separate report.

Contribution Required and Contributions Made

OPEB funding policy provides for periodic employer contributions at actuarially determined rates, that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. A level percentage of payroll amounts, with a 30-year amortization period is used for purposes of computing the minimum accrual under GASB 45. The projected unit credit method is used for cost calculations.

Contributions to normal costs totaling $1.1 million were made during the year ended June 30, 2012. The School Board's annual OPEB cost for the current year is as follows:

(In millions)

Actuarial Required Contribution (ARC)	$7.4
Interest on net OPEB obligation	2.1
Adjustment to ARC	(2.4)
Annual OPEB cost	7.1
Actual Contribution	5.9
Decrease in net OPEB obligation	1.2
Net OPEB obligation, beginning of year	27.8
Net OPEB obligation, end of year	$29.0

Funded Status and Funding Progress

The funded status of the Schools plan as of June 30, 2012 was as follows:

(in millions)		School
Actuarial value of assets	$	8.4
Actuarial Accrued Liability (AAL)		83.8
Unfunded AAL (UAAL)	$	75.4
Funded ratio		10.0%
Covered Payroll	$	136.7
UAAL as a percentage of covered payroll		54.9%

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 School Board and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial valuation date	7/01/11
Actuarial cost method	Projected Unit Credit
Amortization method	Level Dollar Closed
Amortization period	29 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	7.75%
Rate of salary increases	NA%
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 2012, based on an average City salary of $43,352, the City contributed $1,301 per participant. For the year ended June 30, 2012, the City contributed a total of $611,835 to the HRA accounts. The accumulated amounts are available to participants at retirement, or 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.

(11) Self Insurance

(a) Medical Benefits

The School Board is self-insured for medical benefits through the respective General Funds for employees up to $175,000, per employee per year, and 110% of adjusted subscriber charges for the year ($28.7 million for 2012). 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.

Claims processing and payments for the medical claims are made through a third-party administrator. The City and the School Board's settlement using reinsurance did not exceed insurance for fiscal years 2012 or 2011. Both the City and the School Board uses the information provided by the third-party administrator to aid in the determination of self-insurance liabilities. Amounts due in future years on claims as of June 30, 2012 are recognized as a long-term liability in the statement of net assets.

Changes in the medical incurred but not reported amount during the fiscal years ended June 30, 2012 and 2011 for the City and the Public Schools were as follows:

	City		Public Schools	
	2012	2011	2012	2011
Claims payable at beginning of year	$ 3,046,809	2,922,112	2,771,700	2,430,625
Claims and changes in estimates	38,118,328	34,212,872	27,513,144	29,025,009
Claim payments	(37,684,954)	(34,088,175)	(27,784,844)	(28,683,934)
Claims payable at end of year	$ 3,480,183	$ 3,046,809	2,500,000	2,771,700

(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, 2012 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, 2012 and 2011 for the City and the Public Schools.

	City		Public Schools	
	2012	2011	2012	2011
Claims payable at beginning of year	$ 10,889,618	12,070,325	1,964,500	1,597,852
Claims and changes in estimates	2,930,025	1,138,155	642,228	1,046,121
Claim payments	(2,503,309)	(2,318,862)	(542,228)	(679,473)
Claims payable at end of year	$ 11,316,334	10,889,618	2,064,500	1,964,500

A loss analysis was conducted by Oliver Wyman Actuarial Consulting, Inc. on this fund. The total actuarially computed liability as of June 30, 2012 for the City and School Board was determined to be approximately $11.3 million and $2.1 million, respectively.

(c) Other

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

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

	City	
Auto & General Liability	**2012**	**2011**
Claims payable at beginning of year	$ 5,052,825	$ 5,837,122
Claims and changes in estimates	1,390,977	60,332
Claim payments	(538,406)	(844,629)
Claims payable at end of year	$ 5,905,396	$ 5,052,825

The auto and general liability claims increased from $5.1 million to $5.9 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, 2012, will not be material to the financial statements.

(13) Jointly Governed Organizations and Joint Ventures

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

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

(b) Hampton Roads Regional Jail Authority (HRRJA)

The HRRJA is a political subdivision of the Commonwealth of Virginia, created December 14, 1993, by the cities of Hampton, Newport News, Norfolk and Portsmouth. The HRRJA is governed by a twelve-member board, consisting of three members from each city. The purpose of the intergovernmental authority is to develop, construct, equip, maintain and operate a regional jail. No one locality contributes more than 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, Gloucester, Hampton, Isle of Wight County, James City County, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach, Williamsburg and York County, Virginia. The business affairs are managed by a Board of not less that fifty nor 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 $170,195 in FY 12. Separate financial statements are available from the HREDA, 500 E. Main Street, Suite 1300, Norfolk, Virginia 23510.

(13) Subsequent Events

In September 2012, the City issued $48,000,000 of General Obligation General Improvement Bonds Series 2012C with a true interest cost of 2.576% and a maturity date of September 1, 2032. The net proceeds of the $53,381,472 (after an original issue premium of $5,612,832 and payment of $231,360 for underwriting fees) were used to fund on-going capital projects.

In September 2012, the City also issued $3,905,000 of General Obligation Refunding Bonds Series 2012D (AMT) on behalf of the Peninsula Airport Commission with a true interest cost of 1.769% and a maturity date of September 1, 2021. The proceeds of the sale, exclusive of the accrued interest and costs of issuance, were applied to the refunding of $3,855,000 outstanding principal amount of the Peninsula Airport Commission Airport Refunding Bonds, Series 2001. The net proceeds of $3,958,108.17 (after an original issue premium of $84,774.60 and payment of $31,666.43 for underwriting fees) were invested with an escrow agent to provide for all future debt service payments on the refunded bonds. The refunding generated a net present value savings of $637,806 or 16.54% as a percent of the refunded bonds.

E/IDA

The first Grant payment from the Commonwealth of Virginia for the Apprentice School was received by the Industrial Development Authority on August 17, 2012 in the amount of $5,000,000 in accordance with the Amended and Restated Memorandum of Understanding (MOU) dated August 31, 2011. The IDA made a payment on August 31, 2012 to Bank of America per the agreements between the IDA, Huntington Ingalls Industries, Inc., the Developer and Bank of America governing the Advanced Shipbuilding Facility Grant program.

On September 7, 2012, the Economic Development Authorities, in order to secure substantial debt service savings, authorized the refunding in whole or in part the 2004, the 2005 and the 2006 Bonds. The new 2012 bonds will be secured with a Payment Agreement with the City. The refunding will only occur as long as the true interest cost does not exceed 5% per annum, the final maturity is not later than 20 years, the aggregate principal does not exceed $65,000,000, the Underwriter's discount does not exceed 1% of the aggregate principal amount of the bonds, a net present value debt service savings is at least 3% of the principal amount of the refunded bonds. This refunding is scheduled to close in mid-October.

Public Schools

The School Board entered into a contract with Ricoh Americas Corporation on June 27, 2012 to provide the school division with approximately 141 copiers for the school division under the terms of a five-year lease. Equipment was not delivered as of June 30, 2012, hence no accounting entry was made. Subsequent to June 30, 2012 the copiers were delivered. The School Board is accounting for this transaction as a capital lease. In FY2013, other financial source – capital lease proceeds and a corresponding capital outlay expenditure were recorded at $1,072,755. Repayment will be made over a 60-month term at a nominal interest rate of 4.1%. Annual payments will total $237,658 to include principal and interest and will be paid from the School's General Fund.

Newport News Employees' Retirement Fund (NNERF)

At its November 27, 2012 meeting, City Council approved certain changes to Newport News Employees' Retirement Fund. Effective January 1, 2013, the fund will become a contributory fund with the members contributing five (5) percent of covered compensation. The accrual rate for general employees (not including public safety employees) will decrease from 1.85% to 1.65% prospectively and the maximum retirement allowance percentage will increase by 1.85% each year to a maximum of 80% of annual final compensation. Effective July 1, 2013, the effective start date for any cost of living adjustments will be July 1st following the first twelve month anniversary of the employee's retirement, and the cost of living adjustments will be 70% of the current formula.

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, 2012

	Original budget	Amended budget	Actual	Variance
Revenues:				
Revenues from local sources:				
General property taxes:				
Real property taxes	$ 159,488,589	159,488,589	159,062,896	(425,693)
Real and personal public service corporation property taxes	5,798,037	5,798,037	5,556,419	(241,618)
Personal property taxes	44,631,914	44,631,914	46,181,618	1,549,704
Machinery and tools taxes	16,302,910	16,302,910	17,448,801	1,145,891
Penalties and interest	1,031,000	1,031,000	1,103,595	72,595
Total general property taxes	227,252,450	227,252,450	229,353,329	2,100,879
Other local taxes:				
E-911 service revenue	728,916	728,916	699,378	(29,538)
Telecom sales taxes	12,300,000	12,300,000	11,681,054	(618,946)
Local sales and use taxes	21,360,000	21,360,000	22,022,527	662,527
Consumers' utility taxes	5,940,000	5,940,000	5,891,989	(48,011)
Consumption tax	750,000	750,000	653,430	(96,570)
Business license taxes	14,285,000	14,285,000	16,109,141	1,824,141
Rental car taxes	960,000	960,000	1,229,911	269,911
Motor vehicle license	3,930,000	3,930,000	3,917,451	(12,549)
Bank stock taxes	800,000	800,000	847,745	47,745
Taxes on recordation and wills	1,136,500	1,136,500	1,407,159	270,659
Tobacco taxes	4,600,000	4,600,000	4,799,234	199,234
Hotel and motel room taxes	2,980,038	2,980,038	3,191,992	211,954
Restaurant food taxes	17,591,831	17,591,831	18,835,979	1,244,148
Amusement taxes	478,000	478,000	457,436	(20,564)
Total other local taxes	87,840,285	87,840,285	91,744,426	3,904,141
Permits, privilege fees, and regulatory licenses:				
Animal licenses	58,600	58,600	57,706	(894)
Permits and other licenses	2,998,563	2,998,563	3,587,223	588,660
Total permits, privilege fees, and regulatory licenses	3,057,163	3,057,163	3,644,929	587,766
Fines and forfeitures	2,224,000	2,224,000	2,696,728	472,728
Revenue from use of money and property:				
Revenue from use of money	523,700	523,700	389,540	(134,160)
Revenue from use of property	1,963,376	1,963,376	1,717,932	(245,444)
Total revenue from use of money and property	2,487,076	2,487,076	2,107,472	(379,604)
Charges for services:				
Court costs	1,165,097	1,165,097	1,084,949	(80,148)
Law enforcement and traffic control	90,640	90,640	67,984	(22,656)
Fire and rescue services	3,900,000	3,900,000	3,490,250	(409,750)
Information Technology	1,262,317	1,262,317	1,262,217	(100)
Parks and recreation	7,157,951	7,157,951	6,786,880	(371,071)
Cultural enrichment	159,958	159,958	151,630	(8,328)
Self-insurance premiums	1,635,745	1,635,745	1,661,568	25,823
Library	68,000	68,000	69,747	1,747
Planning and community development	9,000	9,000	7,488	(1,512)
Indirect costs	2,413,974	2,413,974	2,413,974	-
Animal services	54,982	54,982	41,692	(13,290)
Applied research center	545,227	545,227	546,379	1,152
Total charges for services	$ 18,462,891	18,462,891	17,584,758	(878,133)

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, 2012

	Original budget	Amended budget	Actual	Variance
Recovered costs:				
Health department	$ 21,947	63,116	152,235	89,119
Juvenile detention home	3,667,647	3,667,647	3,635,509	(32,138)
City farm	886,000	886,000	879,002	(6,998)
City jail	1,218,600	1,218,600	1,042,264	(176,336)
Sewer assessments - debt service	42,000	42,000	57,967	15,967
Total recovered costs	5,836,194	5,877,363	5,766,977	(110,386)
Miscellaneous revenue:				
Payments in lieu of taxes	2,285,876	2,285,876	2,272,557	(13,319)
Miscellaneous	942,194	942,194	728,267	(213,927)
Total miscellaneous revenue	3,228,070	3,228,070	3,000,824	(227,246)
Total revenue from local sources	350,388,129	350,429,298	355,899,443	5,470,145
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' taxes	53,010	53,010	54,376	1,366
Mobile home titling taxes	50,000	50,000	66,021	16,021
Tax on deeds	221,000	221,000	225,420	4,420
State rebate – recording tax	352,800	352,800	519,543	166,743
DCJP grants for law enforcement	8,263,917	8,263,917	8,255,454	(8,463)
Total noncategorical aid	8,940,727	8,940,727	9,120,814	180,087
Shared expenses:				
Technology trust fund	-	34,000	34,000	-
Commonwealth's attorney	1,608,698	1,608,698	1,591,760	(16,938)
Sheriff	6,875,973	6,875,973	6,797,900	(78,073)
Commissioner of the revenue	350,341	350,341	346,542	(3,799)
Treasurer	327,667	327,667	307,775	(19,892)
Registrar/electoral board	60,361	60,361	54,758	(5,603)
Total shared expenses	9,223,040	9,257,040	9,132,735	(124,305)
Categorical aid:				
Emergency services grant	52,400	52,400	52,408	8
Welfare	29,378,664	29,378,664	25,827,707	(3,550,957)
Emergency medical service funds	118,750	118,750	-	(118,750)
Library	158,628	158,628	157,461	(1,167)
Other	-	-	2,815,222	2,815,222
Total categorical state aid	29,708,442	29,708,442	28,852,798	(855,644)
Total revenue from the Commonwealth	47,872,209	47,906,209	47,106,347	(799,862)
Other financing sources:				
Transfers from other funds	10,641,000	10,641,000	10,641,000	-
Total revenue	$ 408,901,338	408,976,507	413,646,790	4,670,283

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, 2012

	Original budget	Amended budget	Actual	Variance
Expenditures:				
General government administration:				
Legislative:				
City Council	$ 315,068	315,068	300,944	14,124
City Clerk	365,257	365,257	333,221	32,036
Total legislative	680,325	680,325	634,165	46,160
General and financial administration:				
City manager	1,419,840	1,419,840	1,454,242	(34,402)
Human resources	1,339,188	1,339,188	1,172,086	167,102
Medical services	66,145	66,145	65,179	966
City attorney	1,749,206	1,749,206	1,734,551	14,655
Video production service	484,242	484,242	404,194	80,048
Internal auditor	545,817	545,817	534,678	11,139
Commissioner of the Revenue	2,772,558	2,772,558	2,555,380	217,178
Real estate assessor	1,724,253	1,724,253	1,570,825	153,428
City treasurer	2,203,947	2,203,947	2,144,070	59,877
Finance	1,276,655	1,276,655	1,256,803	19,852
Budget and evaluation	745,284	745,284	627,059	118,225
Auto self-insurance	1,379,200	1,379,200	1,241,557	137,643
General liability self-insurance	1,198,700	1,198,700	1,121,417	77,283
Workers' compensation	3,320,400	3,320,400	2,871,904	448,496
Purchasing	1,452,236	1,452,236	1,383,729	68,507
Information technology	8,400,890	8,400,890	8,146,646	254,244
Total general and financial administration	30,078,561	30,078,561	28,284,320	1,794,241
Board of elections -				
Registrar	467,183	467,183	464,134	3,049
Nondepartmental:				
Appointed boards	107,741	107,741	83,741	24,000
Community support	2,271,252	2,271,252	2,276,322	(5,070)
Contract community agencies	5,592,803	5,592,803	6,040,701	(447,898)
City development	98,271	98,271	442,554	(344,283)
Contractual services	1,174,888	1,174,888	969,895	204,993
Internal services	117,000	117,000	483	116,517
Machinery and equipment	571,000	571,000	386,748	184,252
Street lighting	717,736	717,736	710,346	7,390
Other	3,551,515	3,551,515	8,404,880	(4,853,365)
Total nondepartmental	14,202,206	14,202,206	19,315,670	(5,113,464)
Total general government administration	45,428,275	45,428,275	48,698,289	(3,270,014)
Judicial administration:				
Courts:				
Circuit courts	422,840	422,840	424,026	(1,186)
District courts	174,580	174,580	174,500	80
Office of the Magistrate	254,944	254,944	253,326	1,618
Juvenile/domestic relations court	43,301	43,301	52,045	(8,744)
Clerk of the circuit court	1,558,448	1,592,448	1,548,729	43,719
Court services	496,492	496,492	448,426	48,066
Total courts	2,950,605	2,984,605	2,901,052	83,553
Commonwealth's attorney	3,798,790	3,798,790	3,833,054	(34,264)
Total judicial administration	$ 6,749,395	6,783,395	6,734,106	49,289

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, 2012

	Original budget	Amended budget	Actual	Variance
Public safety:				
Law enforcement and traffic control:				
Police department	$ 45,917,315	45,917,315	45,809,224	108,091
Emergency communications	394,131	394,131	340,681	53,450
Total law enforcement and traffic control	46,311,446	46,311,446	46,149,905	161,541
Fire and rescue services:				
Fire department	29,680,089	29,680,089	30,221,521	(541,432)
Ambulance and rescue service	1,992,533	1,992,533	2,027,032	(34,499)
Total fire and rescue services	31,672,622	31,672,622	32,248,553	(575,931)
Correction and detention:				
Sheriff	18,967,061	18,967,061	18,894,259	72,802
Adult corrections	4,481,291	4,481,291	4,310,772	170,519
Juvenile detention	7,837,138	7,837,138	7,671,454	165,684
Total correction and detention	31,285,490	31,285,490	30,876,485	409,005
Inspection – codes compliance	2,921,281	2,921,281	2,859,903	61,378
Total public safety	112,190,839	112,190,839	112,134,846	55,993
Public works:				
Engineering:				
Administration	713,682	713,682	604,415	109,267
Civil services	1,131,683	1,131,683	1,102,573	29,110
Facilities engineering	910,463	910,463	907,361	3,102
Technical support	731,402	731,402	692,866	38,536
Site & subdivision services	317,698	317,698	318,296	(598)
Operation engineering	2,234	2,234	81	2,153
Environmental serices	159,756	159,756	179,695	(19,939)
Transportaion services	1,463,529	1,463,529	1,153,113	310,416
Total engineering	5,430,447	5,430,447	4,958,400	472,047
Public works administration	204,198	204,198	130,776	73,422
Maintenance of highways, streets, bridges, and sidewalks	402,023	402,023	315,567	86,456
Maintenance of general buildings and grounds	9,251,002	9,251,002	8,912,901	338,101
Total public works	15,287,670	15,287,670	14,317,644	970,026
Health and welfare:				
Health -				
Medical services	3,608,897	3,650,066	3,646,894	3,172
Welfare:				
Social services administration	8,720,913	8,720,913	7,738,396	982,517
Financial services	7,466,761	7,466,761	5,840,133	1,626,628
Social work services	21,209,907	21,209,907	17,155,103	4,054,804
Healthy families	1,267,628	1,267,628	1,198,320	69,308
Employment service program	2,203,345	2,203,345	1,933,496	269,849
CSA administration	302,920	302,920	323,782	(20,862)
Fuel assistance	35,755	35,755	31,917	3,838
Homeless family services	252,289	252,289	247,600	4,689
Cooperative extension	126,302	126,302	155,232	(28,930)
Total welfare	41,585,820	41,585,820	34,623,979	6,961,841
Total health and welfare	$ 45,194,717	45,235,886	38,270,873	6,965,013

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, 2012

		Original budget	Amended budget	Actual	Variance
Parks, recreation and cultural:					
Parks and recreation:					
Administration	$	5,704,810	5,704,810	5,226,498	478,312
Recreation division		2,798,182	2,798,182	2,551,901	246,281
Parks division		3,249,108	3,249,108	3,932,413	(683,305)
Recreation classes		4,635,957	4,635,957	4,649,728	(13,771)
Golf course		1,737,700	1,737,700	1,803,643	(65,943)
Leeward Marina		253,500	253,500	232,218	21,282
Festival support		170,247	170,247	197,660	(27,413)
Tourism, promotion and development		1,334,100	1,334,100	1,447,500	(113,400)
Animal services		1,098,909	1,098,909	1,135,903	(36,994)
Total parks and recreation		20,982,513	20,982,513	21,177,464	(194,951)
Cultural enrichment – Museum		1,112,000	1,112,000	1,058,699	53,301
Library		5,031,447	5,031,447	4,907,495	123,952
Total parks, recreation and cultural		27,125,960	27,125,960	27,143,658	(17,698)
Community development -					
Planning and community development:					
Development		1,212,466	1,212,466	1,205,126	7,340
Planning		1,177,837	1,177,837	1,104,762	73,075
Economic development		2,600,947	2,600,947	2,485,162	115,785
Total community development		4,991,250	4,991,250	4,795,050	196,200
Education -					
General fund transfer to Public Schools		112,200,000	112,200,000	112,200,000	-
Capital projects transfer to Public Schools		1,860,000	1,860,000	1,860,000	-
Total educations		114,060,000	114,060,000	114,060,000	-
Transfers to other funds:					
Debt service		34,343,242	34,343,242	35,669,313	(1,326,071)
Capital projects		1,609,246	1,710,766	5,610,765	(3,899,999)
Other		1,920,744	1,920,744	1,590,494	330,250
Total transfers to other funds		37,873,232	37,974,752	42,870,572	(4,895,820)
Total expenditures and transfers to other funds	$	408,901,338	409,078,027	409,025,038	52,989
Excess (deficiency) of revenues over (under) expenditures		-	(101,520)	4,621,752	4,723,272
Less encumbrances outstanding at June 30, 2011 expended or canceled at June 30, 2012				(2,923,582)	
Add encumbrances outstanding at June 30, 2012				1,344,940	
FY 2012 (deficit)/surplus				3,043,110	
Fund balance at beginning of year				90,404,862	
Fund balance at end of year				$ 93,447,972	

See accompanying notes to required supplementary information

CITY OF NEWPORT NEWS, VIRGINIA

Required Supplementary Information
Schedule of Funding Progress (unaudited)
Year ended June 30, 2012

Newport News Employee Retirement Fund (in millions):

Actuarial valuation date		Actuarial value of assets		Actual accrued liability (AAL)		Overfunded (unfunded) accrued liability (UAAL)	Funded ratio		Covered payroll	UAAL as a percentage of covered payroll
June 30, 2012	$	680	$	1,176	$	(496)	58%	$	249	-199.2%
June 30, 2011		641		1,145		(504)	56%		262	-192.4%
June 30, 2010		638		1,110		(472)	57%		283	-166.8%
June 30, 2009		711		1,115		(404)	64%		314	-128.7%
June 30, 2008		772		1,030		(258)	75%		314	-82.2%
June 30, 2007		746		954		(208)	78%		305	-68.2%

Newport News Employees' OPEB Fund (in millions):

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

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

Actuarial valuation date		Actuarial value of assets		Actual accrued liability (AAL)		Overfunded accrued liability (UAAL)	Funded ratio		Covered payroll	UAAL as a percentage of covered payroll
June 30, 2011	$	4,804	$	5,775	$	(971)	83%	$	2,553	-38.0%
June 30, 2010		4,545		5,397		(852)	84%		2,319	-36.7%
June 30, 2009		4,410		4,933		(523)	89%		2,095	-25.0%
June 30, 2008		4,126		4,663		(537)	88%		2,022	-26.6%

CITY OF NEWPORT NEWS, VIRGINIA
Required Supplementary Information
Schedule of Funding Progress (unaudited)
Year ended June 30, 2012

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

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

***Newport News School System (NNSS)**
Single Employer Plan Administered by the Virginia Retirement System

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
06/30/2011	$ 285	$ 210	$ 75	136%	$ 1,849	-4.1%
06/30/2010	79	16	63	494%	983	-6.4%

*Plan started July 1, 2009. June 30, 2011 is the most recent actuarial valuation done.

****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
06/30/2012	$ 9	$ 84	$ (75)	10%	$ 137	-54.9%
06/30/2011	7	78	(71)	9%	147	-48.3%
06/30/2010	3	133	(130)	2%	181	-71.8%

**Beginning 7/01/2009, NNSS OPEB Fund separated from the City.

CITY OF NEWPORT NEWS, VIRGINIA

Required Supplementary Information
Employees' Retirement Fund
Schedule of Employer Contributions (Unaudited)
(in millions)
Year ended June 30, 2012

Newport News Employees' Retirement Fund (in millions):

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

Newport News Employees' OPEB Fund (in millions):

Fiscal year end		Annual required contribution	Actual contribution	Percentage contributed
2012	City	$ 17.9	$ 10.9	61%
2011	City	$ 18.3	$ 11.8	64%
2010	City	$ 13.4	$ 12.1	90%
2009	City	$ 12.5	$ 9.2	74%
	NNSS	$ 14.9	$ 3.2	21%

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

See accompanying notes to required supplementary information.

(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 reappropriated in the succeeding year. There were supplemental appropriations made during 2012 for the following reasons: (1) grant matching, (2) funding to meet the increase in operating expenses, (3) capital improvements not included in the Capital Improvements Plan, and (4) increases in school funding.

(2) Legally Adopted Budgets

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

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

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

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

(3) Encumbrances

Encumbrances outstanding at year-end represent the estimated amount of the expenditures required to complete contracts, purchase orders and commitments-in-process at year-end. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities under GAAP.

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CITY OF NEWPORT NEWS, VIRGINIA

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

	Special Revenue						
Assets	**Community development**	**Street maintenance**	**Economic development**	**Law library**	**Stormwater**	**Solid waste**	**Wastewater**
Cash and cash equivalents	$ 67,834	-	1,490,631	166,170	2,846,623	1,256,924	-
Accounts receivable, net	-	-	-	10,324	404,534	1,307,555	1,016,767
Receivable from other governments:							
State	66,335	-	-	-		-	-
Federal	-	-	-	-		-	-
Advances to other funds	-	-	-	-	-	-	-
Total assets	$ 134,169	-	1,490,631	176,494	3,251,157	2,564,479	1,016,767
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	$ 134,169	-	11,489	3,419	21,113	374,712	511,040
Accrued liabilities	-	-	-	-	20,139	17,740	39,294
Deferred revenue	-	-	-	-	292,264	23,352	-
Advances from other funds	-	-	-	-	-	-	-
Advances from major governmental funds	-	-	-	-	-	-	59,586
Total liabilities	$ 134,169	-	11,489	3,419	333,516	415,804	609,920
Fund balances:							
Nonspendable	-	-	-	-	-	-	-
Restricted	-	-	24,818	25	2,917,641	2,148,675	406,847
Committed	-	-	1,454,324	173,050	-	-	-
Assigned	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-
Total fund balances	$ -	-	1,479,142	173,075	2,917,641	2,148,675	406,847
Total liabilities and fund balances	$ 134,169	-	1,490,631	176,494	3,251,157	2,564,479	1,016,767

(continued)

CITY OF NEWPORT NEWS, VIRGINIA

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2012

		Special Revenue			Capital Projects		
Assets		**Comprehensive Services Act**	**Criminal Justice Academy**	**Other federal and state**	**General capital improvements**	**Other federal and state**	**Total nonmajor**
Cash and cash equivalents	$	2,420,400	240,308	794,765	27,651,704	-	36,935,359
Accounts receivable, net		-	11,694	-	-	-	2,750,874
Receivable from other governments:							
State		919,422	-	254,555	995,623	757,060	2,992,995
Federal		-	-	1,141,506	-	849,993	1,991,499
Advances to other funds		-	-	-	888,362	-	888,362
Total assets	$	3,339,822	252,002	2,190,826	29,535,689	1,607,053	45,559,089
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	$	686,321	-	572,082	955,363	273,331	3,543,039
Accrued liabilities		-	-	27,149	162,177	-	266,499
Deferred revenue		-	-	-	-	-	315,616
Advances from other funds		-	-	-	-	888,362	888,362
Advances from major governmental funds		-	-	-	-	-	59,586
Total liabilities	$	686,321	-	599,231	1,117,540	1,161,693	5,073,102
Fund balances:							
Nonspendable		-	-	-	-	-	-
Restricted		-	-	1,591,595	-	445,360	7,534,961
Committed		2,653,501	252,002	-	28,418,149	-	32,951,026
Assigned		-	-	-	-	-	-
Unassigned		-	-	-	-	-	-
Total fund balances	$	2,653,501	252,002	1,591,595	28,418,149	445,360	40,485,987
Total liabilities and fund balances	$	3,339,822	252,002	2,190,826	29,535,689	1,607,053	45,559,089

(continued)

CITY OF NEWPORT NEWS, VIRGINIA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended June 30, 2012

	Special Revenue						
	Community development	Street maintenance	Economic development	Law library	Stormwater	Solid waste	Wastewater
Revenues:							
Intergovernmental:							
State	$ -	14,705,754	-	-	-	21,321	-
Federal	2,511,615	-	-	-	-	-	-
Charges for services	-	-	-	131,149	9,640,308	12,087,972	15,309,521
Interest and rents	-	-	115,228	-	22,315	3,061	1,864
Sale of property	-	-	1,003	-	-	-	-
Miscellaneous	-	-	-	-	-	1	-
Total revenues	$ 2,511,615	14,705,754	116,231	131,149	9,662,623	12,112,355	15,311,385
Expenditures:							
Current operating:							
General government	-	-	-	111,721	-	-	-
Public safety	-	-	-	-	-	-	-
Public works	-	14,705,754	-	-	8,503,831	10,724,906	10,657,049
Health and welfare	-	-	-	-	-	-	-
Education	-	-	-	-	-	-	-
Parks, recreation, and culture	-	-	-	-	-	-	-
Community development	2,511,615	-	126,273	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Total expenditures	$ 2,511,615	14,705,754	126,273	111,721	8,503,831	10,724,906	10,657,049
Excess (deficiency) of revenues over (under) expenditures	-	-	(10,042)	19,428	1,158,792	1,387,449	4,654,336
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	(2,375,629)	(1,657,883)	(5,318,390)
Total other financing sources (uses)	$ -	-	-	-	(2,375,629)	(1,657,883)	(5,318,390)
Net changes in fund balances	-	-	(10,042)	19,428	(1,216,837)	(270,434)	(664,054)
Fund balances at June 30, 2011	-	-	1,489,184	153,647	4,134,478	2,419,109	1,070,901
Fund balances at June 30, 2012	$ -	-	1,479,142	173,075	2,917,641	2,148,675	406,847

(continued)

CITY OF NEWPORT NEWS, VIRGINIA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended June 30, 2012

		Special Revenue			Capital Projects		
		Comprehensive Services Act	**Criminal Justice Academy**	**Other federal and state**	**General capital improvements**	**Other federal and state**	**Total nonmajor**
Revenues:							
Intergovernmental:							
Local	$	-	-	136,376	-	399,395	535,771
State		5,005,463	-	1,466,259	1,252,756	1,473,966	23,925,519
Federal		-	-	3,417,354	361,011	1,052,921	7,342,901
Charges for services		-	141,428	-	-	-	37,310,378
Interest and rents		-	-	2,565	11,877	-	156,910
Sale of Property		-	-	-	-	-	1,003
Miscellaneous		-	-	-	-	-	1
Total revenues	$	5,005,463	141,428	5,022,554	1,625,644	2,926,282	69,272,483
Expenditures:							
Current operating:							
General government		-	-	-	-	-	111,721
Public safety		-	-	3,689,357	-	-	3,689,357
Public works		-	-	2,090,958	-	-	46,682,498
Health and welfare		6,303,972	-	98,588	-	-	6,402,560
Education		-	-	-	1,860,000	-	1,860,000
Parks, recreation, and culture		-	-	136,861	-	-	136,861
Community development		-	-	-	-	-	2,637,888
Capital outlay		-	-	-	12,154,290	2,937,406	15,091,696
Total expenditures	$	6,303,972	-	6,015,764	14,014,290	2,937,406	76,612,581
Excess (deficiency) of revenues over (under) expenditures		(1,298,509)	141,428	(993,210)	(12,388,646)	(11,124)	(7,340,098)
Other financing sources (uses):							
Transfers in		1,223,358	-	6,373	7,837,901	-	9,067,632
Transfers out		-	-	(6,373)	-	-	(9,358,275)
Total other financing sources (uses)	$	1,223,358	-	-	7,837,901	-	(290,643)
Net changes in fund balances		(75,151)	141,428	(993,210)	(4,550,745)	(11,124)	(7,630,741)
Fund balances at June 30, 2011		2,728,652	110,574	2,584,805	32,968,894	456,484	48,116,728
Fund balances at June 30, 2012	$	2,653,501	252,002	1,591,595	28,418,149	445,360	40,485,987

CITY OF NEWPORT NEWS, VIRGINIA

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Non-GAAP Basis)
Special Revenue Funds
Year ended June 30, 2012

	Street Maintenance			
	Original Budget	Final Budget	Actual	Variance
Revenues:				
Intergovernmental:				
State	$ 14,193,565	14,705,754	14,705,754	–
Charges for services	–	–	–	–
Sale of property	–	–	–	–
Interest and rents	–	–	–	–
Miscellaneous	–	–	–	–
Total revenues	$ 14,193,565	14,705,754	14,705,754	–
Expenditures:				
Current:				
General government	–	–	–	–
Public works	14,193,565	14,705,754	14,705,754	–
Community development	–	–	–	–
Total expenditures	$ 14,193,565	14,705,754	14,705,754	–
Operating Transfers Out	–	–	–	–
Excess (deficiency) of revenues over expenditures	$ –	–	–	–

	Economic Development			
	Original Budget	Final Budget	Actual	Variance
Revenues:				
Intergovernmental:				
State	–	–	–	–
Charges for services	–	–	–	–
Sale of property	30,000	30,000	1,003	(28,997)
Interest and rents	115,376	115,376	115,228	(148)
Miscellaneous	124	124	–	(124)
Total revenues	145,500	145,500	116,231	(29,269)
Expenditures:				
Current:				
General government	–	–	–	–
Public works	–	–	–	–
Community development	145,500	145,500	126,273	19,227
Total expenditures	145,500	145,500	126,273	19,227
Operating Transfers Out	–	–	–	–
Excess (deficiency) of revenues over expenditures	–	–	(10,042)	(10,042)
Less encumbrances outstanding at June 30, 2011			(454)	
Add encumbrances outstanding at June 30, 2012			454	
Excess (deficiency) of revenues over expenditures - GAAP basis			(10,042)	
Fund balances at July 1, 2011			1,489,184	
Fund balances at June 30, 2012			$ 1,479,142	

	Law Library			
	Original Budget	Final Budget	Actual	Variance
Revenues:				
Intergovernmental:				
State	–	–	–	–
Charges for services	145,000	145,000	131,149	(13,851)
Sale of property	–	–	–	–
Interest and rents	–	–	–	–
Miscellaneous	–	–	–	–
Total revenues	145,000	145,000	131,149	(13,851)
Expenditures:				
Current:				
General government	145,000	145,000	111,721	33,279
Public works	–	–	–	–
Community development	–	–	–	–
Total expenditures	145,000	145,000	111,721	33,279
Operating Transfers Out	–	–	–	–
Excess (deficiency) of revenues over expenditures	–	–	19,428	19,428
Less encumbrances outstanding at June 30, 2011			–	
Add encumbrances outstanding at June 30, 2012			–	
Excess (deficiency) of revenues over expenditures - GAAP basis			19,428	
Fund balances at July 1, 2011			153,647	
Fund balances at June 30, 2012			$ 173,075	

	Stormwater			
	Original Budget	Final Budget	Actual	Variance
Revenues:				
Intergovernmental:				
State	–	–	–	–
Charges for services	11,962,124	12,451,882	9,640,308	(2,811,574)
Sale of property	–	–	–	–
Interest and rents	29,000	29,000	22,315	(6,685)
Miscellaneous	–	–	–	–
Total revenues	11,991,124	12,480,882	9,662,623	(2,818,259)
Expenditures:				
Current:				
General government	–	–	–	–
Public works	11,991,124	12,511,871	10,879,460	1,632,411
Community development	–	–	–	–
Total expenditures	11,991,124	12,511,871	10,879,460	1,632,411
Operating Transfers Out	–	–	–	–
Excess (deficiency) of revenues over expenditures	–	(30,989)	(1,216,837)	(1,185,848)
Less encumbrances outstanding at June 30, 2011			(38,863)	
Add encumbrances outstanding at June 30, 2012			38,863	
Excess (deficiency) of revenues over expenditures - GAAP basis			(1,216,837)	
Fund balances at July 1, 2011			4,134,478	
Fund balances at June 30, 2012			$ 2,917,641	

(Continued)

CITY OF NEWPORT NEWS, VIRGINIA

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Non-GAAP Basis)
Special Revenue Funds
Year ended June 30, 2012

	Solid Waste				Wastewater				Totals			
	Original Budget	**Final Budget**	**Actual**	**Variance**	**Original Budget**	**Final Budget**	**Actual**	**Variance**	**Original Budget**	**Final Budget**	**Actual**	**Variance**
Revenues:												
Intergovernmental:												
State	$ 23,000	23,000	21,321	(1,679)	–	–	–	–	14,216,565	14,728,754	14,727,075	(1,679)
Charges for services	13,202,492	13,202,492	12,087,972	(1,114,520)	17,843,500	17,843,500	15,309,521	(2,533,979)	43,153,116	43,642,874	37,168,950	(6,473,924)
Sale of Property	-	-	–	–	–	–	–	–	30,000	30,000	1,003	(28,997)
Interest and rents	7,008	7,008	3,061	(3,947)	20,000	20,000	1,864	(18,136)	171,384	171,384	142,468	(28,916)
Miscellaneous	-	-	1	1	–	–	–	–	124	124	1	(123)
Total revenues	$ 13,232,500	13,232,500	12,112,355	(1,120,145)	17,863,500	17,863,500	15,311,385	(2,552,115)	57,571,189	58,573,136	52,039,497	(6,533,639)
Expenditures:												
Current:												
General government	–	–	–	–	–	–	–	–	145,000	145,000	111,721	33,279
Public works	13,232,500	13,240,365	12,382,789	857,576	17,863,500	18,729,831	15,975,439	2,754,392	57,280,689	59,187,821	53,943,442	5,244,379
Community development	–	–	–	–	–	–	–	–	145,500	145,500	126,273	19,227
Total expenditures	$ 13,232,500	13,240,365	12,382,789	857,576	17,863,500	18,729,831	15,975,439	2,754,392	57,571,189	59,478,321	54,181,436	5,296,885
Operating Transfers Out	–	–	–	–	–	–	–	–	–	–	–	–
Excess (deficiency) of revenues over expenditures	$ –	(7,865)	(270,434)	(262,569)	–	(866,331)	(664,054)	202,277	–	(905,185)	(2,141,939)	(1,236,754)
Less encumbrances outstanding at June 30, 2011			(56,830)				(1,108,097)				(1,204,244)	
Add encumbrances outstanding at June 30, 2012			56,830				1,108,097				1,204,244	
Excess (deficiency) of revenues over expenditures - GAAP basis			(270,434)				(664,054)				(2,141,939)	
Fund balances at June 30, 2011			2,419,109				1,070,901				9,267,319	
Fund balances at June 30, 2012			$ 2,148,675				$ 406,847				$ 7,125,380	

CITY OF NEWPORT NEWS, VIRGINIA

Debt Service Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual (Non-GAAP Basis)

Year ended June 30, 2012

		Original Budget	Final Budget		Actual	Variance
Revenues:						
Intergovernmental - Local	$	14,065,160	14,065,160		14,165,160	100,000
Miscellaneous		-	-		32,907	32,907
Total revenues		14,065,160	14,065,160		14,198,067	132,907
Expenditures:						
General government		545,875	545,875		545,875	–
Debt service payments		56,474,298	56,474,298		61,110,758	(4,636,460)
Total expenditures		57,020,173	57,020,173		61,656,633	(4,636,460)
Excess (deficiency) of revenues over expenditures	$	(42,955,013)	(42,955,013)		(47,458,566)	(4,503,553)
Transfers in					44,271,215	
Transfers out					–	
Net changes in fund balances					(3,187,351)	
Fund balances at June 30, 2011					4,370,897	
Fund balances at June 30, 2012				$	1,183,546	

CITY OF NEWPORT NEWS, VIRGINIA

Combining Statement of Changes in Assets and Liabilities
Agency Funds
Year Ended June 30, 2012

GPWDC		Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
Assets:					
Cash and cash equivalents	$	177,761	2,551,002	2,728,763	–
Accounts receivable		254,811	597,414	220,898	631,327
Total assets	$	432,572	3,148,416	2,949,661	631,327
Liabilities:					
Accounts payable	$	82,048	1,737,589	1,636,164	183,473
Due to other agencies		350,524	276,150	178,820	447,854
Total assets	$	432,572	2,013,739	1,814,984	631,327
Other Agency Funds					
Assets:					
Cash and cash equivalents	$	4,000,105	18,547,451	18,302,111	4,245,445
Accounts receivable		3,472,261	18,991,167	19,079,740	3,383,688
Inventory		1,529	1,298	–	2,827
Total assets	$	7,473,895	37,539,916	37,381,851	7,631,960
Liabilities:					
Accounts payable	$	38,841	18,149,204	17,303,281	884,764
Due to other governments		5,218,336	–	897,714	4,320,622
Due to other agencies		2,216,718	243,243	33,387	2,426,574
Total liabilities	$	7,473,895	18,392,447	18,234,382	7,631,960
Total - Agency Funds					
Assets:					
Cash and cash equivalents	$	4,177,866	21,098,453	21,030,874	4,245,445
Accounts receivable		3,727,072	19,588,581	19,300,638	4,015,015
Inventory		1,529	1,298	–	2,827
Total assets	$	7,906,467	40,688,332	40,331,512	8,263,287
Liabilities:					
Accounts payable	$	120,889	19,886,793	18,939,445	1,068,237
Due to other governments		5,218,336	–	897,714	4,320,622
Due to other agencies		2,567,242	519,393	212,207	2,874,428
Total liabilities	$	7,906,467	20,406,186	20,049,366	8,263,287

CITY OF NEWPORT NEWS, VIRGINIA

Combining Statement of Net Assets
Non-Major Component Units
June 30, 2012

Assets	Peninsula Airport Commission	Economic and Industrial Development Authorities	Totals
Current Assets:			
Cash and cash equivalents	$ 5,554,414	7,933,149	13,487,563
Restricted cash and investments	–	16,753,694	16,753,694
Receivables:			
Accounts	504,521	96,333	600,854
Loans	1,182,800	–	1,182,800
Mortgages	–	152,870	152,870
Primary government	325,000	–	325,000
Net investment in direct financing leases	–	916,508	916,508
Inventories	109,388	–	109,388
Other current assets	20,724	948,148	968,872
Total current assets	7,696,847	26,800,702	34,497,549
Restricted cash and investments	6,180,932	142,973	6,323,905
Receivables:			
Loans	–	316,590	316,590
Mortgages	–	77,393	77,393
Notes	–	3,037,590	3,037,590
Primary government	3,855,000	–	3,855,000
Land held for lease or resale	–	22,896,330	22,896,330
Net investment in direct financing leases	–	1,978,881	1,978,881
Other noncurrent assets	121,015	804,104	925,119
Property, plant and equipment:			
Land	6,604,658	–	6,604,658
Construction in progress	5,226,772	7,448,863	12,675,635
Infrastructure	–	2,543,500	2,543,500
Buildings	–	183,476,933	183,476,933
Improvements	–	14,106,455	14,106,455
Airfield	77,628,005	-	77,628,005
Terminal	62,011,024	-	62,011,024
Trailer park and rental units	1,852,612	-	1,852,612
Machinery and equipment	3,641,363	84,674	3,726,037
Accumulated depreciation	(59,068,603)	(40,602,220)	(99,670,823)
Total assets	115,749,625	223,112,768	338,862,393
Deferred swap outflow	–	5,136,002	5,136,002
Total assets and deferrals	$ 115,749,625	228,248,770	343,998,395
Liabilities			
Current Liabilities			
Accounts payable	$ 1,203,334	1,114,057	2,317,391
Accrued liabilities	541,892	596,455	1,138,347
Deposits/deferred revenue	313,164	–	313,164
Due to primary government	–	196,235	196,235
Bonds payable - due within one year	688,506	8,332,350	9,020,856
Total current liabilities	2,746,896	10,239,097	12,985,993
Due to primary government	–	14,063,494	14,063,494
Note payable	–	2,000,000	2,000,000
Due to Newport News Public Schools	–	–	–
Bonds payable	13,987,751	111,602,422	125,590,173
Other post-retirement employee benefits (OPEB) liability	2,913,040	–	2,913,040
Total liabilities	19,647,687	137,905,013	157,552,700
Net Assets			
Invested in capital assets, net of related debt	83,219,574	58,544,833	141,764,407
Restricted for:			
Capital projects	6,180,932	15,500,691	21,681,623
Capital loans	–	1,395,976	1,395,976
Unrestricted	6,701,432	14,902,257	21,603,689
Total net assets	96,101,938	90,343,757	186,445,695
Total liabilities and net assets	$ 115,749,625	228,248,770	343,998,395

CITY OF NEWPORT NEWS, VIRGINIA

Combining Statement of Revenues, Expenses and Changes in Net Assets
Non-Major Component Units
Year ended June 30, 2012

		Peninsula Airport Commission	Economic and Industrial Development Authorities	Totals
Operating revenues:				
Charges for services	$	9,862,321	–	9,862,321
Property rentals		–	10,196,183	10,196,183
Parking contributions		–	151,168	151,168
Land sales		–	1,000	1,000
Intergovernmental-PAC		–	150,760	150,760
Intergovernmental-Parking Authority		–	405,804	405,804
Intergovernmental-primary government		–	14,833,695	14,833,695
Total operating revenues		9,862,321	25,738,610	35,600,931
Operating expenses:				
Cost of land sold		–	411,500	411,500
Personal services		4,678,921	598,742	5,277,663
Contractual services		3,321,801	4,270,907	7,592,708
Materials and supplies		946,326	499,551	1,445,877
Depreciation and amortization		5,963,170	4,792,706	10,755,876
Real estate commissions		–	4,612	4,612
Rental expenses		–	921,704	921,704
Miscellaneous		16,409	405,950	422,359
Total operating expenses		14,926,627	11,905,672	26,832,299
Operating income (loss)		(5,064,306)	13,832,938	8,768,632
Nonoperating revenues (expenses):				
Interest revenue		280,962	188,139	469,101
Bond and admin fee income		–	258,538	258,538
Interest expense		(734,928)	(7,059,207)	(7,794,135)
Letter of credit and trustee fees		–	(68,299)	(68,299)
Amortization - bond costs		(12,318)	–	(12,318)
Other revenues (expenses)		(3,000)	1,446,574	1,443,574
OPEB expense		(584,037)	–	(584,037)
Nonoperating expenses, net		(1,053,321)	(5,234,255)	(6,287,576)
Capital contributions, net		7,596,352	–	7,596,352
Change in net assets		1,478,725	8,598,683	10,077,408
Net assets at June 30, 2011		94,623,213	81,745,074	176,368,287
Net assets at June 30, 2012	$	96,101,938	90,343,757	186,445,695

CITY OF NEWPORT NEWS, VIRGINIA

Statement of Cash Flows

Non-Major Component Units

Year ended June 30, 2012

		Peninsula Airport Commission	Economic and Industrial Development Authorities	Totals
Cash flows from operating activities:				
Receipts from customers	$	9,926,660	25,359,115	35,285,775
Receipts from land sales and new loans, net of settlement charges		-	183,921	183,921
Payments to suppliers		(3,670,499)	(9,115,851)	(12,786,350)
Payments to employees		(4,678,921)	(598,742)	(5,277,663)
Net cash provided by operating activities		1,577,240	15,828,443	17,405,683
Cash flows from capital and related financing activities:				
Acquisition of capital assets		(4,925,725)	(1,055,330)	(5,981,055)
Capital contributions, net		6,806,508	-	6,806,508
Repayment and retirement of industrial revenue bonds and notes payable		(658,743)	(10,678,127)	(11,336,870)
Payment from Newport News Public Schools		-	(61,938)	(61,938)
Proceeds from primary government		310,000	546,379	856,379
Payment to primary government		-	(938,812)	(938,812)
Interest paid		(734,928)	(7,111,845)	(7,846,773)
Other revenue (expenses), net		(1,164)	1,636,813	1,635,649
Net cash used in capital and related financing activities		795,948	(17,662,860)	(16,866,912)
Cash flows from investing activities:				
Net investment in direct financing leases		-	1,908,541	1,908,541
Maturation of certificates of deposits		1,513,398		
Interest received		288,421	188,418	476,839
Increase in restricted investments, net		(3,487,214)	-	(3,487,214)
Net cash provided by investing activities		(1,685,395)	2,096,959	(1,101,834)
Increase (decrease) in cash and cash equivalents at beginning of year		687,793	262,542	(563,063)
Cash, cash equivalents and restricted cash at beginning of year		4,866,621	24,566,384	29,433,005
Cash, cash equivalents and restricted cash at end of year	$	5,554,414	24,828,926	28,869,942
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$	(5,064,306)	13,832,938	8,768,632
Adjustment to reconcile operating income to cash provided by operating activities:				
Depreciation		5,963,170	4,792,706	10,755,876
OPEB expense paid		(73,290)	-	(73,290)
Write-off of construction in progress		-	10,710	10,710
Changes in assets and liabilities:				
Changes in land inventory		-	(3,162,759)	(3,162,759)
Mortgages receivable		-	182,921	182,921
Other receivables		67,340	(172,178)	(104,838)
Inventories		(7,369)	-	(7,369)
Other assets (expenses), net		(14,169)	-	(14,169)
Accounts payable and accrued liabilities		834,491	550,422	1,384,913
Deferred revenue		(128,627)	(206,317)	(334,944)
Net cash provided by operating activities	$	1,577,240	15,828,443	17,405,683
Supplemental disclosure:				
Noncash investing and financing activities:				
Contributed capital funded by accounts receivable	$	1,078,420	-	1,078,420

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CITY OF NEWPORT NEWS, VIRGINIA
Trust Funds
Combining Statement of Fiduciary Net Assets
June 30, 2012

	Pension	OPEB	Total
Assets			
Cash and cash equivalents	$ 1,267,725	$ 1,880,476	$ 3,148,201
Cash and cash equivalents with trustee	54,920,834	261,865	55,182,699
Investments, at market value			
Corporate and government bonds	170,489,323	-	170,489,323
Domestic stocks	278,370,502	-	278,370,502
Domestic mutual funds	-	10,002,456	10,002,456
International stocks	82,250,230	-	82,250,230
International mutual funds	53,018,188	5,025,692	58,043,880
Real estate	86,212,063	-	86,212,063
Accounts receivable	744,815	-	744,815
Receivable from City	2,964,712	-	2,964,712
Interest receivable	573,620	-	573,620
Dividend receivable	-	-	-
Sales receivable	1,336,721	58,162	1,394,883
Total assets	$ 732,148,733	$ 17,228,651	$ 749,377,384
Liabilities			
Accounts payable	$ 200,701	$ 1,019,241	$ 1,219,942
Payable to City	-	455,708	455,708
Accrued vacation	27,295	-	27,295
Purchases payable	22,445,218	173,019	22,618,237
Total liabilities	22,673,214	1,647,968	24,321,182
Net Assets			
Assets held in trust:			
Postemployment healthcare benefits	-	15,580,683	15,580,683
Employees' retirement	709,475,519	-	709,475,519
Total net assets	709,475,519	15,580,683	725,056,202
Total liabilities and net assets	$ 732,148,733	$ 17,228,651	$ 749,377,384

See accompanying notes to basic financial statements

CITY OF NEWPORT NEWS, VIRGINIA
Trust Funds
Combining Statement of Fiduciary Net Assets
Year ended June 30, 2012

	Pension	OPEB	Total
Additions (decreases):			
Employer Contributions:			
City General Fund	$ 20,743,792	$ 9,088,786	$ 29,832,578
City Contribution - General Fund	-	600,000	600,000
Waterworks Fund	2,710,289	1,219,908	3,930,197
School Operating Fund	7,318,237	-	7,318,237
Other Contributions:			
Additional Contribution - Schools	2,013,744	-	2,013,744
Income from Leave Exchange	167,489	-	167,489
Employee Buy-back	365,903	-	365,903
Medicare Part D - City	-	-	-
Total contributions	33,319,454	10,908,694	44,228,148
Investment income:			
Net appreciation - bonds	7,926,558	-	7,926,558
Net appreciation (depreciation) - stocks	(16,827,913)	(308,250)	(17,136,163)
Interest	5,538,588	5,176	5,543,764
Dividends	8,208,211	208,987	8,417,198
Real estate operating loss, net	4,334,454	-	4,334,454
Commission recapture	78,531	-	78,531
Other investment income	-	2,284	2,284
Total investment loss	9,258,429	(91,803)	9,166,626
Less investment expenses:	(4,343,458)	(58,844)	(4,402,302)
Net investment gain/(loss)	4,914,971	(150,647)	4,764,324
Total increase/(decrease)	38,234,425	10,758,047	48,992,472
Deductions:			
Benefits paid to participants	60,779,356	9,290,480	70,069,836
Administrative expenses	782,215	21,997	804,212
Total deductions	61,561,571	9,312,477	70,874,048
Net increase	(23,327,146)	1,445,570	(21,881,576)
Net assets held in trust for pension benefits at June 30, 2011	732,802,665	14,135,113	746,937,778
Net assets held in trust for pension benefits at June 30, 2012	$ 709,475,519	$ 15,580,683	$ 725,056,202

STATISTICAL SECTION

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

<u>Contents</u> <u>Page</u>

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented Statement 34 in 2002; schedules presenting government-wide information includes information beginning in that year.

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Net Assets by Component
Last Ten Fiscal Years
(Accrual basis of accounting)

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Governmental activities										
Invested in capital assets, net of related debt	$ 311,394,219	$ 290,455,293	$ 251,724,446	$ 228,275,222	$ 223,305,188	$ 190,926,170	$ 175,306,479	$ 162,580,785	$ 126,254,500	$ 124,001,270
Restricted**	10,732,493	1,182,184	1,034,412	1,517,751	1,853,588	2,234,557	1,521,091	3,998,951	34,052,310	28,883,536
Unrestricted**	(141,023,569)	(104,156,300)	(59,047,595)	(46,605,508)	(37,333,216)	(3,441,801)	14,603,368	30,067,425	35,374,896	43,581,266
Total governmental activities net assets	$ 181,103,143	$ 187,481,177	$ 193,711,263	$ 183,187,465	$ 187,825,560	$ 189,718,926	$ 191,430,938	$ 196,647,161	$ 195,681,706	$ 196,466,072
Business-type activities										
Invested in capital assets, net of related debt	$ 257,644,908	$ 251,759,910	$ 238,441,047	$ 276,666,222	$ 277,770,877	$ 269,150,510	$ 264,939,418	$ 249,491,400	$ 224,842,179	$ 204,642,226
Restricted	-	-	-	-	-	-	225,000	225,000	16,963,485	23,401,614
Unrestricted	19,485,138	23,521,844	31,828,423	41,643,472	29,287,711	24,572,102	18,150,853	16,912,260	10,242,607	9,443,893
Total business-type activities net assets *	$ 277,130,046	$ 275,281,754	$ 270,269,470	$ 318,309,694	$ 307,058,588	$ 293,722,612	$ 283,315,271	$ 266,628,660	$ 252,048,271	$ 237,487,733
Primary government										
Invested in capital assets, net of related debt	$ 569,039,127	$ 542,215,203	$ 490,165,493	$ 504,941,444	$ 501,076,065	$ 460,076,680	$ 440,245,897	$ 412,072,185	$ 351,096,679	$ 328,643,496
Restricted	10,732,493	1,182,184	1,034,412	1,517,751	1,853,588	2,234,557	1,746,091	4,223,951	51,015,795	52,285,150
Unrestricted (deficit)	(121,538,431)	(80,634,456)	(27,219,172)	(4,962,036)	(8,045,505)	21,130,301	32,754,221	46,979,685	45,617,503	53,025,159
Total primary government net assets	$ 458,233,189	$ 462,762,931	$ 463,980,733	$ 501,497,159	$ 494,884,148	$ 483,441,538	$ 474,746,209	$ 463,275,821	$ 447,729,977	$ 433,953,805

Note: The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002.

* 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).

**Correction made to fiscal year 2011 restricted and unrestricted amounts.

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

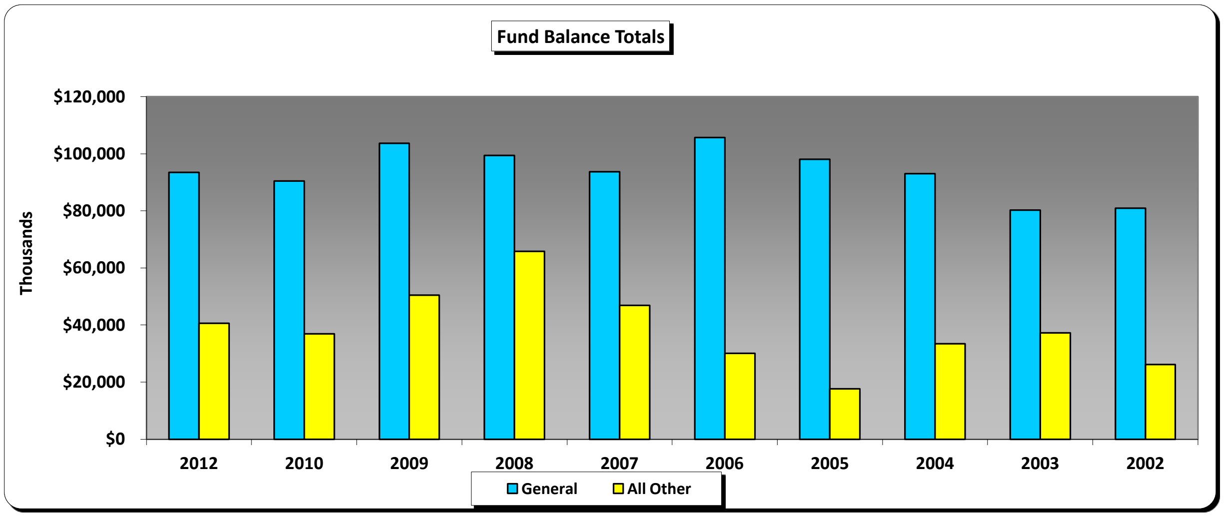
	Fiscal Year									
	2012	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Program revenues										
Governmental activities:										
Charges for services:										
Public works	$ 37,095,768	$ 36,800,694	$ 37,744,481	$ 34,526,097	$ 30,513,564	$ 28,057,816	$ 26,160,999	$ 23,453,616	$ 22,952,047	$ 21,937,252
All others	26,264,076	25,854,740	25,805,742	26,406,149	25,760,135	25,941,895	24,758,610	24,671,063	22,932,430	21,339,768
Operating grants and contributions	41,429,302	44,986,270	42,704,554	44,966,813	45,835,149	44,078,633	43,861,201	59,841,991	49,539,479	47,548,988
Capital grants and contributions	4,966,923	3,156,118	4,740,959	1,962,681	2,140,343	2,771,153	2,970,950	11,326,181	13,693,887	985,347
Total governmental activities program revenues	109,756,069	110,797,822	110,995,736	107,861,740	104,249,191	100,849,497	97,751,760	119,292,851	109,117,843	91,811,355
Business-type activities:										
Charges for services	73,337,822	74,497,015	72,719,343	73,817,176	76,003,756	71,908,595	72,397,545	64,692,616	63,863,831	59,623,977
Total business-type activities program revenues	73,337,822	74,497,015	72,719,343	73,817,176	76,003,756	71,908,595	72,397,545	64,692,616	63,863,831	59,623,977
Total primary government program revenues	183,093,891	185,294,837	183,715,079	181,678,916	180,252,947	172,758,092	170,149,305	183,985,467	172,981,674	151,435,332
Expenses										
Governmental activities:										
General government	53,687,583	41,072,050	56,496,116	67,006,531	54,904,104	54,577,481	64,991,195	57,053,132	75,766,012	57,068,233
Judicial administration	7,796,103	7,675,395	7,061,964	7,042,239	7,269,926	6,919,927	6,397,049	6,060,839	5,283,193	4,848,126
Public safety	131,544,707	129,661,963	119,642,698	120,240,436	119,019,088	112,089,213	100,481,015	96,637,983	87,907,570	77,928,537
Public works	76,076,207	77,288,468	71,950,527	70,635,586	70,571,291	66,258,073	63,695,077	54,351,940	49,364,947	46,393,246
Health and welfare	49,131,969	54,114,507	52,805,082	56,468,567	58,563,411	56,061,131	53,362,500	53,692,902	51,593,737	47,748,437
Education	117,566,704	118,376,318	119,956,981	116,528,527	114,275,568	117,460,703	104,054,463	107,463,439	95,799,045	92,183,490
Parks, recreation and culture	34,690,901	34,385,246	32,614,571	34,409,781	36,183,209	32,557,355	29,934,662	27,059,823	26,372,043	24,866,503
Community development	8,743,779	12,678,704	10,369,291	8,832,458	10,623,457	8,700,790	11,168,279	10,455,402	6,568,809	7,169,887
Interest on long-term debt	25,545,336	30,258,101	23,923,629	25,487,370	24,118,788	21,149,858	17,169,976	19,109,084	19,083,650	18,458,814
Total governmental activities expenses	504,783,289	505,510,752	494,820,859	506,651,495	495,528,842	475,774,531	451,254,216	431,884,544	417,739,006	376,665,273
Business-type activities:										
Public utilities	65,287,629	63,397,723	64,078,572	62,684,897	59,439,084	54,357,032	51,394,362	46,037,659	45,060,323	44,748,056
Parking Authority *	-	-	-	-	-	-	199,461	262,691	265,020	264,403
Total business-type activities expenses	65,287,629	63,397,723	64,078,572	62,684,897	59,439,084	54,357,032	51,593,823	46,300,350	45,325,343	45,012,459
Total primary government expenses	570,070,918	568,908,475	558,899,431	569,336,392	554,967,926	530,131,563	502,848,039	478,184,894	463,064,349	421,677,732
Net Revenue/(Expenditures)										
Governmental activities	(395,027,220)	(394,712,930)	(383,825,123)	(398,789,755)	(391,279,651)	(374,925,034)	(353,502,456)	(312,591,693)	(308,621,163)	(284,853,918)
Business-type activities	8,050,193	11,099,292	8,640,771	11,132,279	16,564,672	17,551,563	20,803,722	18,392,266	18,538,488	14,611,518
Total primary government	(386,977,027)	(383,613,638)	(375,184,352)	(387,657,476)	(374,714,979)	(357,373,471)	(332,698,734)	(294,199,427)	(290,082,675)	(270,242,400)
General revenues and Other Changes in Net Assets										
Governmental activities:										
Property taxes	229,194,920	230,980,102	236,993,370	233,735,214	219,867,771	207,827,846	187,912,894	172,575,384	159,841,724	154,600,404
Other taxes	91,744,426	89,063,340	88,595,948	89,624,744	93,161,528	90,412,582	89,170,125	83,396,354	80,131,054	74,799,019
Unrestricted grants and contributions	47,106,347	48,209,536	48,630,187	48,993,988	49,350,467	48,308,625	45,473,865	37,699,447	39,506,422	40,336,019
Investment earnings	2,270,634	2,395,569	2,663,324	3,596,647	6,169,470	6,465,913	5,007,664	3,116,612	4,211,328	3,014,372
Miscellaneous	8,441,859	7,834,297	7,466,092	8,201,067	10,837,049	11,087,567	11,587,686	8,013,660	5,713,465	4,399,115
Transfers	9,891,000	10,000,000	10,000,000	10,000,000	10,000,000	9,110,489	9,134,000	9,134,000	9,134,001	8,934,000
Total governmental activities	388,649,186	388,482,844	394,348,921	394,151,660	389,386,285	373,213,022	348,286,234	313,935,457	298,537,994	286,082,929
Business-type activities:										
Investment earnings	213,743	235,100	549,737	1,940,465	2,988,546	1,926,084	1,240,697	485,453	301,763	390,821
Miscellaneous	3,475,356	3,677,892	5,381,669	8,332,219	3,782,758	3,530,826	3,753,852	4,836,670	4,854,288	5,164,351
Extraordinary loss	-	-	(52,612,401)	-	-	-	-	-	-	-
Transfers	(9,891,000)	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)	(9,110,489)	(9,134,000)	(9,134,000)	(9,134,001)	(8,934,000)
Total business-type activities	(6,201,901)	(6,087,008)	(56,680,995)	272,684	(3,228,696)	(3,653,579)	(4,139,451)	(3,811,877)	(3,977,950)	(3,378,828)
Total primary government	382,447,285	382,395,836	337,667,926	394,424,344	386,157,589	369,559,443	344,146,783	310,123,580	294,560,044	282,704,101
Changes in Net Assets										
Governmental activities	(6,378,034)	(6,230,086)	10,523,798	(4,638,095)	(1,893,366)	(1,712,012)	(5,216,222)	1,343,764	(10,083,169)	1,229,011
Business-type activities	1,848,292	5,012,284	(48,040,224)	11,404,963	13,335,976	13,897,984	16,664,271	14,580,389	14,560,538	11,232,690
Total primary government	$ (4,529,742)	$ (1,217,802)	$ (37,516,426)	$ 6,766,868	$ 11,442,610	$ 12,185,972	$ 11,448,049	$ 15,924,153	$ 4,477,369	$ 12,461,701

Note: The City began to report accrual information when it implemented GASB 34 in fiscal year 2002.
*** Effective fiscal year 2007: Parking Authority is no longer reported as a business-type activity; they are now reported under The Economic and Industrial Development Authorities (E/IDA).**

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

	Fiscal Year									
	2012	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
General fund										
Reserved	$ -	$ -	$ 6,305,988	$ 5,194,291	$ 6,009,589	$ 6,791,817	$ 6,356,403	$ 7,284,539	$ 6,911,653	$ 5,940,726
Unreserved	-	-	97,366,646	94,164,397	87,703,448	98,820,178	91,686,630	85,724,284	73,370,464	74,999,428
Nonspendable	15,412,699	15,711,917	-	-	-	-	-	-	-	-
Restricted	2,013,986	2,011,665	-	-	-	-	-	-	-	-
Assigned	34,656,608	31,290,680	-	-	-	-	-	-	-	-
Unassigned	41,364,679	41,390,600	-	-	-	-	-	-	-	-
Total general fund	$ 93,447,972	$ 90,404,862	$ 103,672,634	$ 99,358,688	$ 93,713,037	$ 105,611,995	$ 98,043,033	$ 93,008,823	$ 80,282,117	$ 80,940,154
All other governmental funds										
Reserved	$ -	$ -	$ 17,170,639	$ 11,977,232	$ 14,741,065	$ 12,333,840	$ 21,873,135	$ 28,361,951	$ 10,399,097	$ 11,101,083
Unreserved, reported in:										
Special revenue fund	-	-	12,372,862	15,126,615	10,474,287	9,267,465	8,845,238	10,597,971	12,155,851	9,562,264
Debt service fund	-	-	6,511,346	1,258,059	2,695,240	1,306,632	319,453	1,137,289	2,524,220	2,501,364
Capital project fund	-	-	13,290,298	10,927,505	11,555,870	9,492,210	2,749,848	1,253,898	1,408,532	369,835
Bond fund	-	-	1,144,480	26,477,781	7,393,868	(2,354,461)	(16,143,636)	(7,897,965)	10,795,788	2,620,832
Restricted	24,773,693	28,210,329	-	-	-	-	-	-	-	-
Committed	32,951,026	40,772,110	-	-	-	-	-	-	-	-
Assigned	-	30,000	-	-	-	-	-	-	-	-
Unassigned	(17,129,925)	(32,086,837)	-	-	-	-	-	-	-	-
Total all other governmental funds	$ 40,594,794	$ 36,925,602	$ 50,489,625	$ 65,767,192	$ 46,860,330	$ 30,045,686	$ 17,644,038	$ 33,453,144	$ 37,283,488	$ 26,155,378

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									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Revenues										
General Property Taxes	$229,353	$230,860	$236,184	$233,632	$219,316	$208,128	$189,477	$170,347	$159,876	$153,829
Other Local Taxes	91,744	89,063	88,596	89,625	93,162	90,413	89,170	83,396	80,131	74,799
Licenses and Permits	3,645	3,372	2,846	3,170	3,672	3,315	3,487	3,706	2,690	2,949
Fines and Forteitures	2,697	2,332	2,213	1,981	1,881	1,826	2,079	2,187	2,231	2,001
Interest and Rents	2,264	2,391	2,653	3,579	6,147	6,437	4,987	3,129	4,206	3,006
Charges for Services	54,895	54,057	55,523	51,003	46,403	44,484	41,289	37,981	36,836	35,105
Recovered Costs	5,768	6,267	5,814	7,948	8,718	7,690	7,551	8,737	6,818	6,171
Intergovernmental	93,076	94,980	92,883	95,048	96,745	94,477	90,199	103,533	102,439	86,444
Miscellaneous	3,034	3,476	3,348	3,821	4,964	5,411	6,714	3,662	3,077	2,983
Total Revenues	486,476	486,798	490,060	489,807	481,008	462,181	434,953	416,678	398,304	367,287
Expenditures										
General Government	50,109	49,331	51,254	51,921	49,368	48,637	57,389	46,546	44,281	46,578
Judicial Administration	6,733	6,592	6,236	6,148	6,218	5,910	5,517	5,184	4,968	4,626
Public Safety	116,183	114,075	108,877	108,467	105,008	99,472	90,508	86,910	82,528	75,105
Public Works	60,806	62,152	58,764	57,178	56,174	51,798	49,915	42,017	40,108	38,164
Health and Welfare	44,654	48,918	49,309	52,154	52,892	50,487	48,989	44,957	48,845	46,483
Education	123,007	118,262	119,581	119,088	121,770	121,050	104,848	109,639	99,397	102,828
Parks Recreation Culture	27,421	26,923	25,976	27,082	28,174	26,384	24,412	21,822	20,732	19,557
Community Development	7,429	10,852	8,959	7,439	8,899	7,140	9,573	8,932	6,040	6,813
Debt Service:										
Principal	36,792	33,675	33,444	34,422	35,742	31,333	31,156	38,750	26,536	24,422
Interest	25,424	28,100	24,356	26,054	24,792	21,861	17,281	20,625	19,371	18,313
Capital Outlay	37,883	27,791	27,186	21,858	33,615	37,535	52,626	25,945	33,992	29,551
Bond Issuance Cost	-	-	-	-	-	370	475	-	-	-
Total Expenditures	536,441	526,671	513,942	511,811	522,651	501,977	492,689	451,327	426,798	412,440
Excess (deficiency) of Revenues Over (under) Expenditures	(49,965)	(39,873)	(23,882)	(22,004)	(41,643)	(39,796)	(57,736)	(34,649)	(28,494)	(45,153)
Other Financing Sources (Uses)										
Transfer In	63,980	87,189	69,587	66,217	78,707	63,120	51,963	44,599	40,261	38,638
Transfer Out	(54,089)	(77,189)	(59,587)	(56,217)	(68,707)	(54,010)	(42,829)	(35,465)	(34,051)	(29,704)
Payment to Refund Bonds	(76,685)	-	-	(136)	-	(22,380)	(30,533)	(11,785)	(71,635)	(73,517)
Premium on Refunded Bonds	7,756	-	-	663	1,716	3,666	2,131	1,109	644	-
Refund Bonds Proceeds	69,335	-	-	481	-	20,370	28,020	12,720	71,635	-
Bond and Note Proceeds	42,121	3,041	2,918	35,549	34,843	49,001	37,873	32,367	29,312	133,091
Premium on Bonds Issuance	4,259	-	-	-	-	-	985	-	-	-
Capital Leases	-	-	-	-	-	-	-	-	388	-
Total Other Financing Sources (Uses)	56,677	13,041	12,918	46,557	46,559	59,767	47,610	43,545	36,554	68,508
Net Change in Fund Balance	$6,712	($26,832)	($10,964)	$24,553	$4,916	$19,971	($10,126)	$8,896	$8,060	$23,355
Debt Service as a Percentage of Noncapital Expenditures	12.5%	12.4%	11.9%	12.3%	12.4%	11.5%	11.0%	14.0%	11.7%	11.2%

Note: Prior to GASB 34 implemention in fiscal year 2002, contributions to School component unit appeared as a transfer instead of Education expense.

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

	Fiscal Year										
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	% Change 2003-2012
Property tax	$229,194,920	$230,980,102	$236,183,979	$233,631,532	$219,315,976	$208,128,176	$189,477,417	$170,347,467	$159,875,655	$153,828,500	49.0%
E911 service	699,378	729,711	737,734	708,725	571,027	1,078,375	2,750,556	2,737,853	2,788,546	2,937,283	-76.2%
Telecom sales	11,681,054	12,321,643	12,018,133	12,416,819	13,177,014	4,772,796	-	-	-	-	95.1%
Sales tax	22,022,527	21,206,724	20,862,730	21,930,591	23,572,320	23,276,742	22,432,446	20,955,339	20,294,801	18,801,952	17.1%
Utility tax	5,891,989	6,511,120	6,321,381	6,137,436	6,112,238	8,017,460	9,254,101	9,515,933	9,345,342	9,608,733	-38.7%
Cellular telephone tax	-	-	-	-	-	2,138,607	3,117,614	2,848,339	2,615,736	2,357,579	0.0%
Consumption tax	653,430	674,265	776,672	728,656	704,570	695,383	774,586	641,699	680,202	688,401	-5.1%
Business license tax	16,109,141	15,115,176	15,266,938	14,676,421	15,116,393	14,770,199	14,701,673	13,391,073	12,199,360	11,375,961	41.6%
Rental car tax	1,229,911	1,044,775	1,021,610	1,058,659	996,093	966,780	932,481	870,813	898,190	792,298	55.2%
Franchise license tax	-	-	-	-	-	890,920	1,732,167	1,670,013	1,606,670	1,540,204	0.0%
Cable television tax	-	-	-	-	-	1,225,349	2,108,165	2,006,039	2,087,952	2,088,184	0.0%
Motor vehicle license tax	3,917,451	3,880,996	3,922,803	3,905,814	3,531,053	3,578,087	3,585,645	3,585,609	3,531,624	3,436,659	14.0%
Bank stock tax	847,745	957,902	1,015,597	727,678	588,882	584,773	600,317	532,019	544,584	556,238	52.4%
Recordation and wills tax	1,407,159	1,065,889	1,263,938	1,461,537	2,219,287	2,120,046	2,535,995	1,969,391	1,052,317	885,362	58.9%
Tobacco tax	4,799,234	4,269,564	4,160,343	4,119,169	4,205,798	4,406,514	4,622,565	4,639,855	5,090,983	3,720,193	29.0%
Hotel and motel room tax	3,191,992	3,064,515	2,969,053	3,130,281	3,454,926	3,386,331	2,802,362	2,686,120	2,724,109	2,458,217	29.8%
Restaurant food tax	18,835,979	17,767,348	17,765,937	18,074,235	18,348,254	17,943,384	16,649,811	14,779,660	14,092,861	12,987,152	45.0%
Amusement tax	457,436	453,712	493,079	548,722	563,673	560,836	569,643	566,599	577,777	564,602	-19.0%
Total Taxes	$320,939,346	$320,043,442	$324,779,927	$323,256,275	$312,477,504	$298,540,758	$278,647,544	$253,743,821	$240,006,709	$228,627,518	40.4%

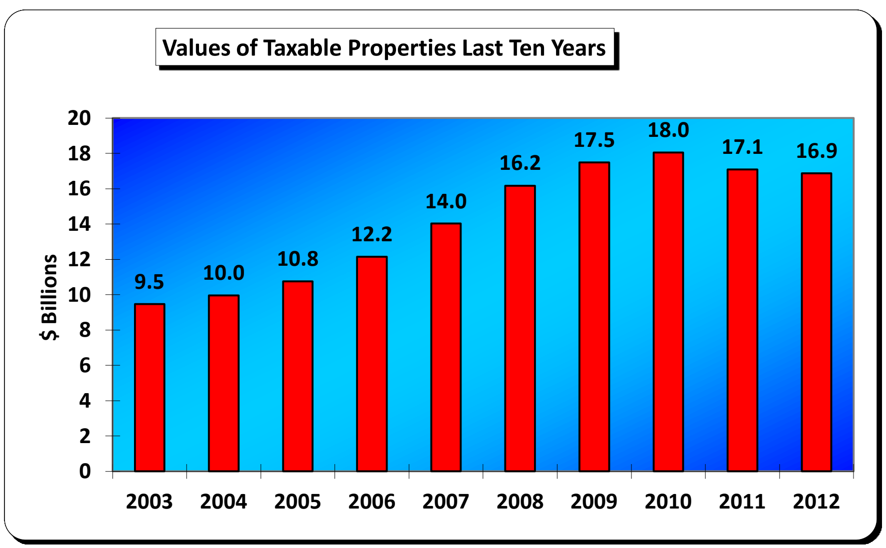
Note: Effective in FY 2007, all communication taxes (E-911, utility, cellular telephone, franchise license and cable television) are reported under telecom sales.

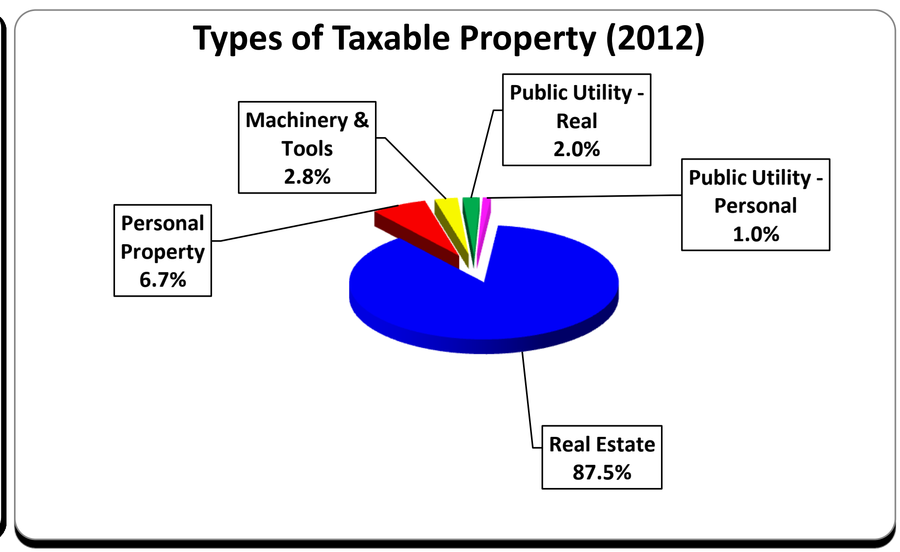
City of Newport News, Virginia
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(In thousands of dollars)

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Utility Real Estate	Public Utility Personal Property	Less: Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value
2003	7,807,813	939,795	348,958	220,333	157,950	-	9,474,849	-	-
2004	8,301,266	962,822	343,020	209,128	151,551	-	9,967,787	-	-
2005	9,042,610	1,024,049	337,032	204,572	148,487	-	10,756,750	-	-
2006	12,887,570	1,155,202	343,770	186,890	117,131	(2,538,300)	12,152,263	1.59	14,690,563
2007	15,141,893	1,161,864	352,403	180,706	92,112	(2,901,608)	14,027,370	1.55	16,928,978
2008	17,390,981	1,233,279	364,010	211,388	136,000	(3,157,425)	16,178,233	1.53	19,335,658
2009	19,011,429	1,195,193	397,899	250,995	163,492	(3,530,295)	17,488,713	1.51	21,019,008
2010	19,762,256	1,154,011	419,441	293,307	172,545	(3,753,027)	18,048,533	1.37	21,801,560
2011	18,600,158	1,165,494	438,747	326,889	173,108	(3,614,365)	17,090,031	1.40	20,704,396
2012	18,342,224	1,186,515	468,330	339,790	163,940	(3,622,298)	16,878,501	1.41	20,500,799

Note: **Prior to the implementation of GASB 44 in FY 2006, assessed values were presented net of tax-exempt property.**
Prior to the implementation of GASB 44 in FY2006, total direct rate and estimated actual taxable value was not required.

Source: City of Newport News Real Estate Assessors Office





City of Newport News

Direct and Overlapping Property Taxes

Last Ten Fiscal Years

(Rate per $100 of assessed value)

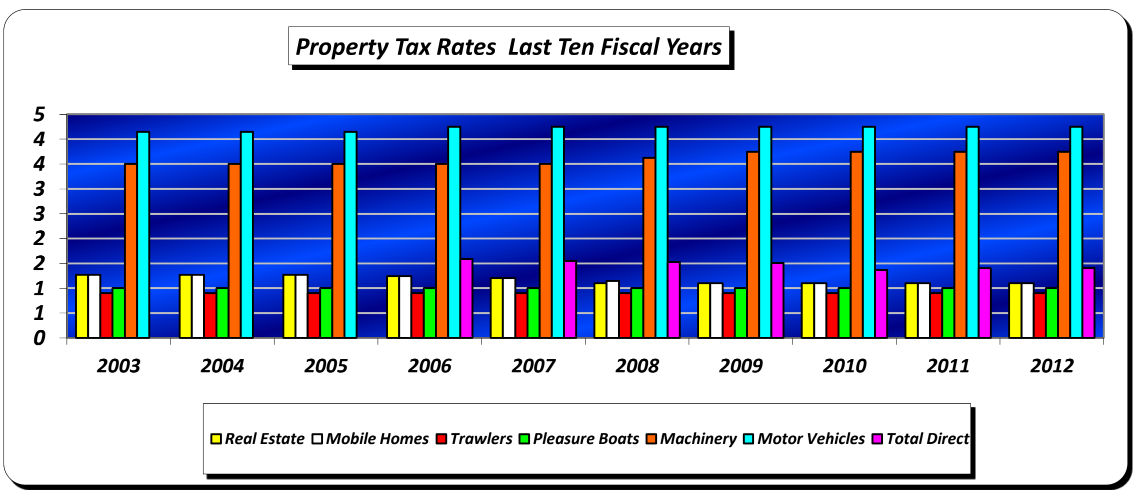
City Direct Rates

Fiscal Year	Real Estate	Mobile Homes	Trawlers	Pleasure Boats	Machinery & Tools	Motor Vehicles	Total Direct Rate	
2003	1.27	1.27	0.90	1.00	3.50	4.15	-	
2004	1.27	1.27	0.90	1.00	3.50	4.15	-	
2005	1.27	1.27	0.90	1.00	3.50	4.15	-	
2006	1.24	1.24	0.90	1.00	3.50	4.25	1.59	
2007	1.20	1.20	0.90	1.00	3.50	4.25	1.55	
2008	1.10	1.15	0.90	1.00	3.63	4.25	1.53	
2009	1.10	1.10	0.90	1.00	3.75	4.25	1.51	
2010	1.10	1.10	0.90	1.00	3.75	4.25	1.37	*
2011	1.10	1.10	0.90	1.00	3.75	4.25	1.40	*
2012	1.10	1.10	0.90	1.00	3.75	4.25	1.41	

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

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

*Total Direct Tax Rate restated for 2010 and 2011



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

	2012		2003	
	Taxable Assessed Value	Percentage of Assessments	Taxable Assessed Value	Percentage of Assessments
Northrop Grumman Shipbuilding Inc *1	$16,471	7.05%	$11,632	8.11%
Canon Virginia Inc *2	3,514	1.51%	1,571	1.10%
Dominion Virginia Power *5	2,121	0.91%	1,692	1.18%
Continental Automotive Systems Us Inc	1,958	0.84%	-	-
The Mariners Museum (Riverside Hospital)	1,625	0.70%	566	0.39%
PR Patrick Henry L L C *6	1,505	0.64%	1,069	0.75%
Verizon Virginia Inc	1,430	0.61%	780	0.54%
Dominion Terminal Associates *3	1,135	0.49%	959	0.67%
Kinder Morgan Operation LP"C"	953	0.41%	412	0.29%
Inland Western Newport News	724	0.31%	-	-
Virginia Natural Gas Inc	641	0.27%	435	0.30%
Bottling Group L L C	569	0.24%	-	-
Ferguson Enterprises Corp	539	0.23%	-	-
Cox Communications Hampton Roads, Inc	497	0.21%	286	0.20%
Patrick Henry Hospital (Warwick Forest)	496	0.21%	-	-
DCO Realty Inc	459	0.20%	-	-
Oyster Point Residential L L C	448	0.19%	-	-
Meridian Parkside Apartments L L C	379	0.16%	-	-
CSX Transportation Inc	353	0.15%	317	0.22%
Harbours L L C *4	334	0.14%	251	0.18%
The Daily Press Inc	-	-	286	0.20%
Seimens - Bendix Automotive	-	-	1,671	1.16%
Shorewood Packaging Corp Of Va	-	-	494	0.34%
Seimens Credit	-	-	522	0.36%
United Dominion Realty Trust Inc	-	-	353	0.25%
Newport-Oxford Associates Ltd	-	-	250	0.17%
General Electric Credit Corp of Tennessee	-	-	329	0.23%
Fountain Plaza One LLC	-	-	295	0.21%
Denbigh Associates	-	-	-	-
Total	$36,151	15.48%	$24,170	16.85%

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

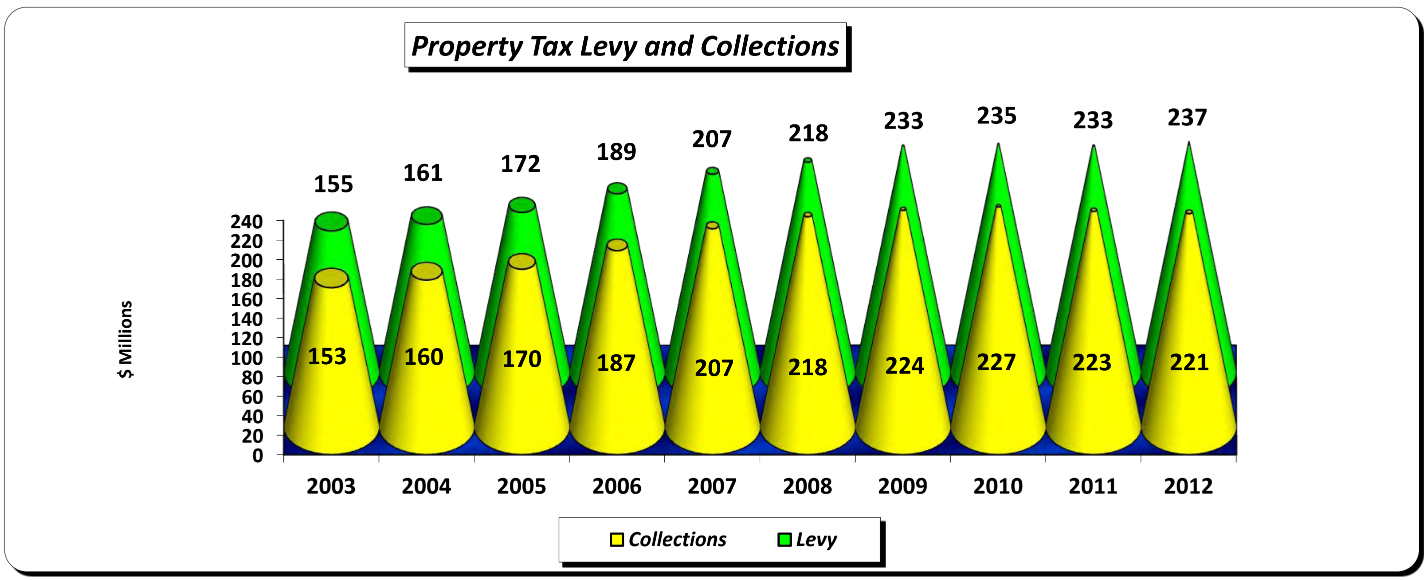
Source: City of Newport News Real Estate Assessors Office and Office of the Commissioner of Revenue

*1 Previously Newport News Shipbuilding and Dry Dock Company
*2 Previously Canon USA Inc
*3 Previously Peninsula Port Authority - Dominion Terminal Associates
*4 Previously Harbours Associates
*5 Previously Virginia Electric & Power Company
*6 Previously Crown American Financing

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

Fiscal Year	Tax Levy	Current Year Amount	Current Year % of Levy	Prior Year Amount	Collections in Subsequent Years	Total Collections for Year Amount	Total Collections for Year % of Levy
2003	$ 154,654	$ 145,541	94.1%	$ 7,729	$ -	$ 153,270	99.1%
2004	160,747	152,197	94.7%	7,463	-	159,660	99.3%
2005	171,852	162,199	94.4%	7,497	-	169,696	98.7%
2006	188,870	180,295	95.5%	-	6,355	186,650	98.8%
2007	207,427	200,041	96.4%	-	7,236	207,277	99.9%
2008	218,395	210,243	96.3%	-	7,831	218,074	99.9%
2009	232,507	224,199	96.4%	-	7,592	231,791	96.4%
2010	235,225	227,030	96.5%	-	6,476	233,506	96.5%
2011	233,380	222,804	95.5%	-	6,115	228,919	95.5%
2012	236,875	220,914	93.3%	-	Not Available	220,914	93.3%

Note: **Prior to the implemention of GASB 44 in FY 2006, collections in subsequent years was not required to be reported by tax year. FY 2008 amounts were corrected in 2009 to accurately report current and subsequent year collections.**



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

	Fiscal Year									
	2012	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Population	180,719	180,719	193,172	193,212	187,200	186,000	186,000	185,240	185,200	181,640
Personal Income	$ -	$ -	$ 5,946,073	$ 6,011,449	$ 6,011,085	$ 5,500,739	$ 5,225,657	$ 5,086,295	$ 4,872,092	$ 4,598,879
Governmental Activities:										
General Obligation Bonds	$ 361,126	$ 353,639	$ 383,753	$ 413,482	$ 411,159	$ 411,567	$ 401,020	$ 394,354	$ 399,243	$ 397,114
Guaranty of Peninsula Airport Bonds	4,180	4,490	4,780	5,055	5,315	5,565	5,800	6,000	6,245	6,450
Literary Fund	6,298	6,717	7,237	8,034	8,830	9,321	2,895	3,564	4,233	4,903
Capital Leases	-	-	-	388	53	140	219	293	360	45
Business-type Activities:										
Public Utility Bonds	160,352	172,695	186,330	217,720	208,855	195,155	152,675	165,220	178,025	189,110
Total Primary Government	$ 531,956	$ 537,541	$ 582,100	$ 644,679	$ 634,212	$ 621,748	$ 562,609	$ 569,431	$ 588,106	$ 597,622
Percentage of Personal Income	0.0%	0.0%	9.8%	10.7%	10.6%	11.3%	10.8%	11.2%	12.1%	13.0%
Net Bonded Debt Per Capita	$ 2,944	$ 2,974	$ 3,013	$ 3,337	$ 3,388	$ 3,343	$ 3,025	$ 3,074	$ 3,176	$ 3,290

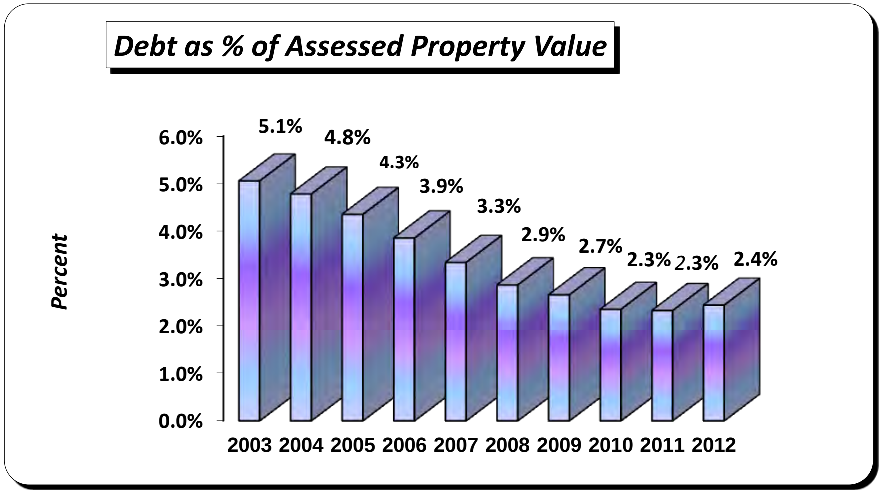
Note: Population figures are derived as follows: 2003 - 2008 City estimates, 2009 and 2010 Census Bureau estimates, 2011-2012 Census Bureau.
Note: Personal Income figures were not available for FY2011 and FY2012.

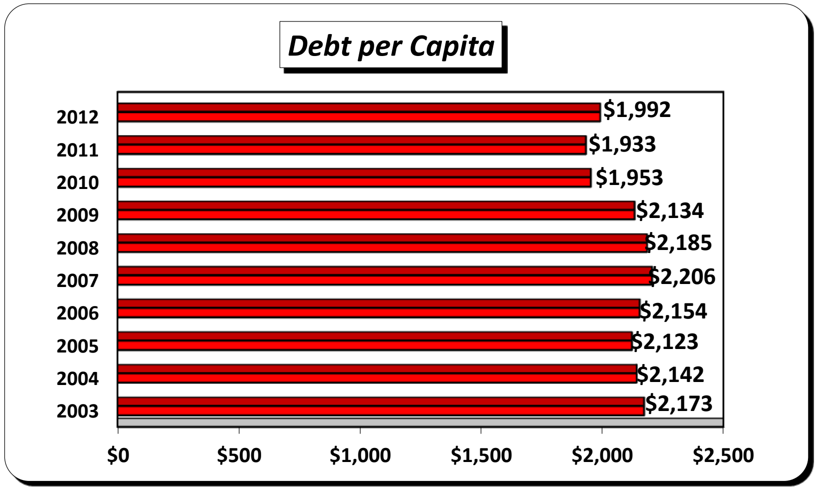
City of Newport News, Virginia
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(in thousands of dollars)

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
2003	181,640	$ 7,807,813	$ 397,114	$ 2,501	$ 394,613	5.1%	$ 2,173
2004	185,200	8,301,266	399,243	2,524	396,719	4.8%	2,142
2005	185,240	9,042,610	394,354	1,137	393,217	4.3%	2,123
2006	186,000	10,404,207	401,020	319	400,701	3.9%	2,154
2007	186,000	12,293,454	411,567	1,307	410,260	3.3%	2,206
2008	187,200	14,286,003	411,159	2,139	409,020	2.9%	2,185
2009	193,212	15,527,921	413,482	1,258	412,224	2.7%	2,134
2010	193,172	16,059,444	383,753	6,511	377,242	2.3%	1,953
2011	180,719	15,037,654	353,639	* 4,341	349,298	2.3%	1,933
2012	180,719	14,768,666	361,126	1,184	359,942	2.4%	1,992

Note: Population figures are derived as follows: 2003 - 2008 City estimates, 2009 and 2010 Census Bureau estimates, 2011-2012 Census Bureau.

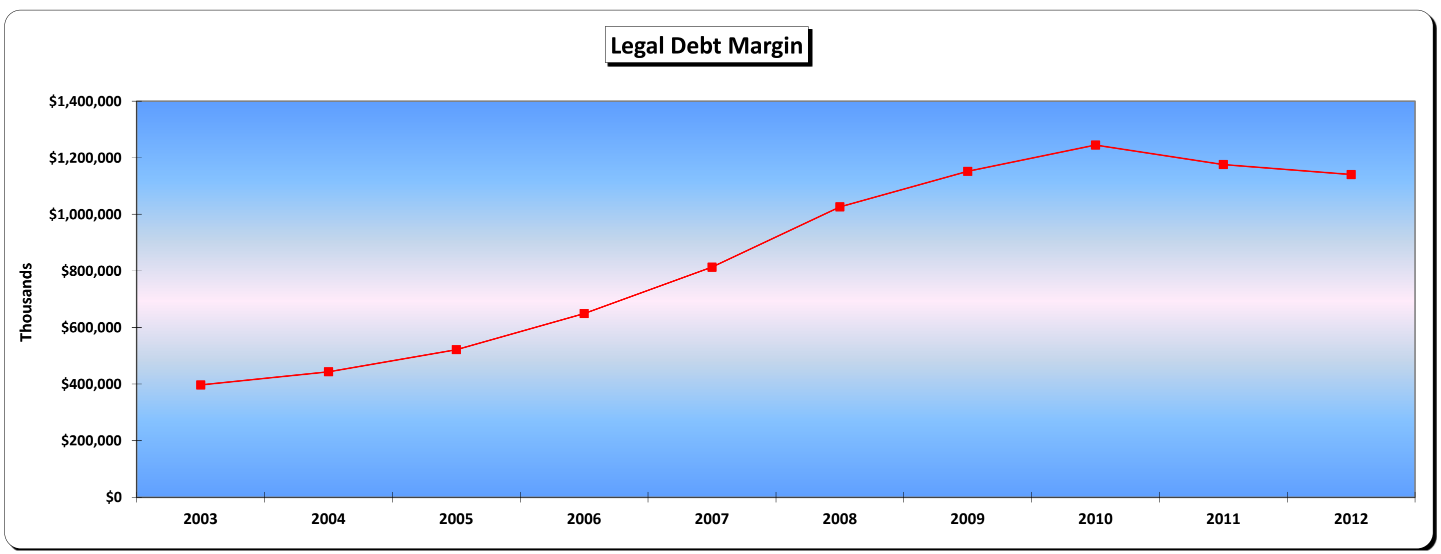
***Restated: Per GASB 54 and effective FY2011 only resources that are restricted by an outside party should be included in the calculation of net bonded debt.**





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

	Fiscal Year									
	2012	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Assessed Value of Real Estate:										
General	$14,768,666,300	$15,037,654,401	$16,059,444,443	$15,527,920,717	$14,286,002,924	$12,293,453,737	$10,404,206,752	$9,042,610,300	$8,301,266,000	$7,807,813,049
Public Service Corporations	339,789,784	326,888,523	293,307,435	250,994,845	211,388,045	180,706,024	186,889,718	204,600,000	209,128,000	220,333,000
Total assessed value	15,108,456,084	15,364,542,924	16,352,751,878	15,778,915,562	14,497,390,969	12,474,159,761	10,591,096,470	9,247,210,300	8,510,394,000	8,028,146,049
Total debt limit (10% of Total Assessed Value)	1,510,845,608	1,536,454,292	1,635,275,188	1,577,891,556	1,449,739,097	1,247,415,976	1,059,109,647	924,721,030	851,039,400	802,814,605
Bonds Outstanding:										
General Obligation	322,830,000	311,700,000	341,405,000	378,499,990	371,155,000	378,656,195	358,855,000	353,330,000	359,055,000	358,345,000
General Obligation: Virginia Public School Authority (VPSA)	4,382,117	5,256,983	6,105,937	6,929,403	7,728,827	8,506,195	9,263,363	10,000,000	10,717,000	11,414,389
General Obligation:Virginia Resources Authority (VRA) Loan Fund	29,583,326	31,776,867	30,761,968	21,997,022	25,644,960	25,705,339	25,121,275	22,668,400	20,452,000	19,731,824
General Obligation: Virginia Municipal Pool Loans (VMPL)	1,887,565	2,462,565	3,037,565	3,612,565	4,187,565	4,762,565	5,337,565	5,912,600	6,577,800	7,622,753
Guaranty of Peninsula Airport Bonds	4,180,000	4,490,000	4,780,000	5,055,000	5,315,000	5,565,000	5,800,000	6,000,000	6,245,000	6,450,000
Literary Fund	6,297,656	6,717,425	7,598,441	8,034,421	8,829,688	9,320,937	2,894,833	3,564,100	4,233,000	4,902,580
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	2,442,500	2,442,494	-
Bond Anticipation Notes	-	-	-	-	-	-	-	-	-	-
Capital leases	-	-	360,965	387,811	53,406	139,513	219,145	292,800	360,000	45,405
Amount available in Debt Service Fund	(1,183,546)	(4,370,897)	(6,511,346)	(1,258,059)	(2,138,839)	(1,306,632)	(319,453)	(1,137,300)	(2,524,220)	(2,501,364)
Total debt outstanding	370,419,612	360,475,437	389,981,024	425,700,647	423,218,101	433,791,606	409,614,222	403,073,100	407,558,074	406,010,587
Legal debt margin	$1,140,425,996	$1,175,978,855	$1,245,294,164	$1,152,190,909	$1,026,520,996	$813,624,370	$649,495,425	$521,647,930	$443,481,326	$396,804,018
Total net debt applicable to the limit as a % of debt limit	75.48%	76.54%	76.15%	73.02%	70.81%	65.22%	61.32%	56.41%	52.11%	49.43%



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

Water Revenue Bonds

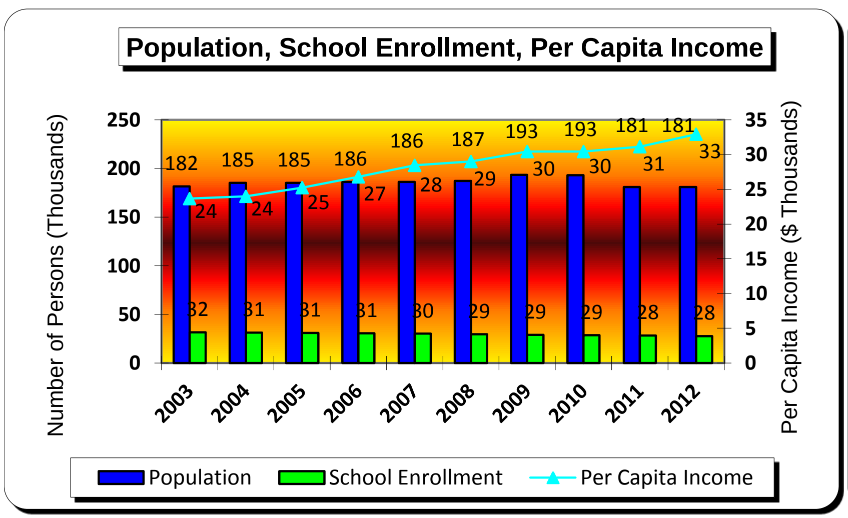
Fiscal Year	Utility Revenues	Less: Operating Expenses	Net Available Revenue
2012	$ 69,282,497	$ 43,538,269	$ 25,744,228
2011	66,642,840	42,366,226	24,276,614
2010	71,430,670	42,696,817	28,733,853
2009	78,895,705	41,913,154	36,982,551
2008	76,709,312	40,055,422	36,653,890
2007	71,968,747	36,474,026	35,494,721

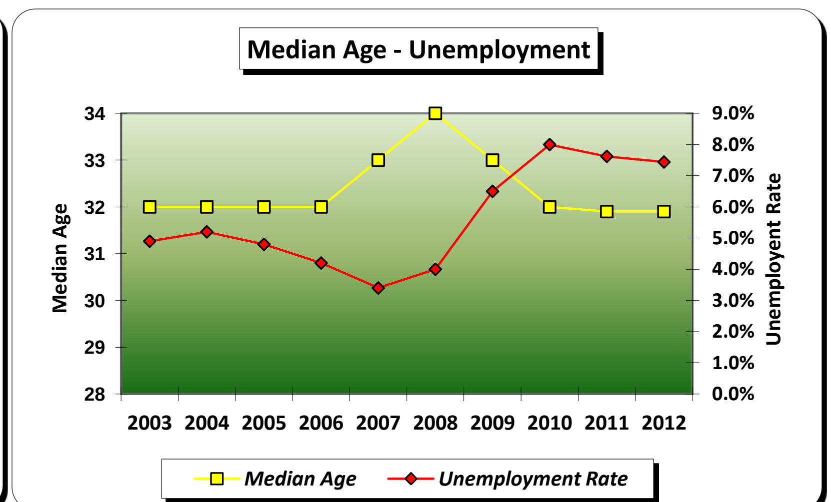
Note: Operating expenses exclude depreciation.

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
2003	181,640	4,598,879	23,654	32	31,535	4.9%
2004	185,200	4,872,092	23,986	32	31,358	5.2%
2005	185,240	5,086,295	25,233	32	30,827	4.8%
2006	186,000	5,225,657	26,782	32	30,635	4.2%
2007	186,000	5,500,739	28,436	33	30,218	3.4%
2008	187,200	5,941,588	28,990	34	29,441	4.0%
2009	193,212	6,011,449	30,423	33	29,023	6.5%
2010	193,172	5,946,073	30,423	32	28,610	8.0%
2011	180,719	-	31,120	32	28,183	7.6%
2012	180,719	-	32,921	32	27,701	7.4%

Sources:
Note: Population figures are derived as follows: 2002 Virginia Employment Commission, 2003 - 2008 City estimates, 2009 and 2010 Census Bureau estimates, 2011-2012 Census Bureau.
Personal Income: 2000 - 2007 Virginia Employment Commission; 2008-2010 Bureau of Economic Accounts; 2011 - 2012 were not available at year-end.
Per Capita Income: 2000 City of Newport News; 2001 and 2005 Census Bureau; 2002 - 2012 Bureau of Economic Analysis.
Unemployment Rate: 2000 - 2009 Virginia Employment Commission; 2010-2012 Virginia Workforce Connection.





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

	2012		2003	
	Employees	% of Total City Employment	Employees	% of Total City Employment
Huntington Ingalls Industries, Inc.	10,000 - 25,000	18.74%	10,000 - 25,000	19.96%
Newport News Public Schools	1,000 - 5,000	3.21%	1,000 - 5,000	3.42%
Riverside Regional Medical Center	1,000 - 5,000	3.21%	1,000 - 5,000	3.42%
U. S. Department of Defense	1,000 - 5,000	3.21%	1,000 - 5,000	3.42%
City of Newport News	1,000 - 5,000	3.21%	1,000 - 5,000	3.42%
Canon	1,000 - 5,000	3.21%	500 - 999	0.85%
Ferguson Enterprises Inc.	1,000 - 5,000	3.21%	-	
U. S. Department of Army & Air Force	1,000 - 5,000	3.21%	1,000 - 5,000	3.42%
Christopher Newport University	1,000 - 5,000	3.21%	500 - 999	0.85%
Hampton Newport News Community Services Board	500 - 999	0.80%	-	-
MCI payroll Services	-	-	1,000 - 5,000	3.42%
Siemen's Automotive Corportation	-	-	500 - 999	0.85%
Total	18,500 - 65,999	45.25%	17,500 - 52,997	43.05%

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									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
General Fund:										
General Government Administration:										
Legislative:										
City Council	7	7	7	7	7	7	7	7	7	7
City Clerk	5	5	5	5	5	5	5	5	5	5
General and Financial Administration:										
City Manager	18	18	21	21	23	23	12	12	12	13
Human Resources	19	19	18	18	20	20	18	17	17	16
City Attorney	18	18	18	18	19	19	18	18	17	15
Management/Legislative Services	0	0	0	0	0	0	10	10	10	10
Internal Auditor	6	6	6	6	7	7	7	7	7	7
Commissioner of the Revenue	40	40	42	42	40	40	40	40	40	40
Real Estate Assessor	22	22	23	23	23	23	23	23	23	23
City Treasurer	33	33	34	34	35	35	34	34	34	34
Finance	18	18	18	18	19	19	19	19	19	19
Budget and Evaluation	7	7	7	7	7	7	7	7	7	7
Office of Self-Insurance	6	6	9	9	9	9	9	9	10	9
Purchasing	23	23	23	23	24	24	24	24	24	25
Information Technology	57	58	63	63	66	66	65	65	65	65
Board of Elections:										
Registrar	5	5	5	5	5	5	5	5	5	5
Total General Government Administration	284	285	299	299	309	309	303	302	302	300
Judicial administration:										
Courts:										
Circuit Courts	6	7	7	7	7	7	7	7	7	7
Office of the Magistrate	6	6	6	6	6	6	6	6	6	6
Clerk of the Circuit Court	24	24	27	27	27	27	27	27	27	27
Court Services	2	2	2	2	2	2	2	2	2	2
Commonwealth's Attorney	49	49	50	50	51	47	41	41	41	41
Total Judicial Administration	87	88	92	92	93	89	83	83	83	83
Public Safety:										
Law Enforcement and Traffic Control:										
Police Department	586	587	593	593	578	578	564	539	532	531
Emergency Communications	-	-	-	-	4	4	4	4	4	4
Fire and Rescue Services:										
Fire Department	382	382	371	371	372	377	374	374	374	374
Correction and Detention:										
Sheriff	217	217	222	222	202	198	193	187	181	181
Adult Corrections	61	62	69	69	73	72	72	69	69	71
Juvenile Detention	130	128	143	143	168	171	178	178	178	177
Inspections:										
Codes Compliance	39	39	40	40	41	41	41	42	37	37
Total Public Safety	1,415	1,415	1,438	1,438	1,438	1,441	1,426	1,393	1,375	1,375
Public Works:										
Engineering	84	85	93	93	98	97	97	95	84	84
Project Services	-	-	-	-	-	-	-	1	6	6
Public Works Administration	158	158	170	170	167	167	159	151	148	146
Total Public Works	242	243	263	263	265	264	256	247	238	236
Welfare:										
Human Services	391	391	397	397	396	394	394	390	390	392
Office of Youth Development	-	-	-	-	9	9	9	9	9	9
Total Welfare	391	391	397	397	405	403	403	399	399	401
Parks and Library:										
Parks and Recreation	105	106	117	117	122	120	112	112	103	98
Parks and Recreation Revolving Fund	95	95	98	98	95	93	89	75	75	74
Library	56	57	61	61	67	67	63	62	59	58
Total Parks, Recreation and Library	256	258	276	276	284	280	264	249	237	230
Community Development:										
Planning and Community Development:										
Development	17	18	20	20	20	20	18	18	17	16
Planning	13	13	14	14	15	15	14	14	14	14
Total Community Development	30	31	34	34	35	35	32	32	31	30
Total General Fund	2,705	2,711	2,799	2,799	2,829	2,821	2,767	2,705	2,665	2,655
OTHER OPERATING FUNDS										
Public Utilities Fund	365	365	370	370	381	372	374	374	374	374
Vehicle & Equipment Services Fund	40	40	40	40	43	40	45	45	45	45
Solid Waste Revolving Fund	61	66	66	66	68	68	69	66	65	64
Wastewater Fund	95	87	87	87	76	76	78	77	80	80
Stormwater Management Fund	81	79	79	79	84	84	83	61	59	57
Pension Fund	6	6	7	7	7	7	7	7	7	6
Economic and Industrial Authority	5	5	5	5	5	4	4	4	4	4
Parking Authority Fund	2	2	2	2	2	1	1	1	1	1
Law Library	1	1	2	2	2	1	1	1	1	1
Schools	4,076	4,138	4,296	4,293	4,420	4,468	4,446	4,389	4,281	4,260
Total Other Operating Funds	4,732	4,789	4,954	4,951	5,088	5,121	5,108	5,025	4,917	4,892
TOTAL CITY EMPLOYEES	7,437	7,500	7,753	7,750	7,917	7,942	7,875	7,730	7,582	7,547

Source: City Adopted Budget.

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

Function/Program	Fiscal Year 2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
General Government										
Retail Sales (Millions)	-	1,893	1,923	1,873	2,021	2,122	2,029	1,743	1,897	1,809
Police										
Calls for Service	255,267	250,126	251,346	179,975	219,634	230,065	222,939	222,939	221,047	251,777
Number of Offenses	22,516	21,386	23,905	30,787	23,269	24,415	25,336	24,263	27,076	27,645
Adult Arrests	14,759	15,065	15,093	15,496	17,477	18,592	19,288	19,082	18,846	17,409
Traffic Summonses	32,961	15,682	26,611	22,944	23,417	27,072	26,778	37,452	32,791	37,266
Traffic Accidents	2,517	2,480	2,510	3,068	3,484	3,825	3,620	3,341	3,452	3,600
Fire										
Fire Calls	-	-	-	12,718	12,569	6,134	12,022	11,702	12,024	13,552
EMS Calls	-	-	-	21,492	24,854	24,872	23,931	23,764	21,669	20,354
Structure Fires	-	-	-	517	430	484	381	285	314	306
Emergency Medical Service/Rescue*	24,674	22,190	21,845	-	-	-	-	-	-	-
Public Assistance*	1,461	1,569	1,483	-	-	-	-	-	-	-
Good Intent Calls*	1,305	1,309	1,457	-	-	-	-	-	-	-
False/Alarm / Alarm Malfunction*	1,348	1,418	1,428	-	-	-	-	-	-	-
Hazardous Conditions*	930	720	879	-	-	-	-	-	-	-
All Fires*	704	870	776	-	-	-	-	-	-	-
Explosions*	18	2	18	-	-	-	-	-	-	-
Weather Event/Other*	51	27	16	-	-	-	-	-	-	-
Sheriff										
City Jail Capacity	300	300	248	248	248	248	248	248	248	248
Codes Compliance										
Building Permits Issued	2,155	1,759	1,821	2,079	2,203	2,640	2,680	2,226	2,876	2,956
Residental Construction	340	262	198	91	130	192	257	308	180	344
Commercial Construction	102	81	37	53	59	65	69	101	70	31
Waterworks										
Gallons Delivered Per Day (Millions)	36	40	40	42	44	44	44	43	44	45
Meters Connected**	132,439	134,403	131,924	128,614	124,956	124,677	123,857	128,090	127,377	126,434
Public Works										
Potholes Repaired	15,125	19,216	17,675	7,742	9,697	12,543	13,542	17,630	13,293	-
Streets Resurfaced (Miles)	8	9	9	10	11	8	22	21	18.50	-
Recyclables collected (Tons)	6,698	7,641	7,463	9,924	10,538	10,335	10,653	91,411	129,201	142,188
Parks and Recreation										
Park Vistors (Millions) (All Parks)	4	4	4	4	4	4	4	-	-	4
Celebration of lights vistors	112,854	93,428	91,665	103,341	103,400	111,786	95,510	109,223	95,510	91,594
Tourism visitor inquiries	87,732	80,206	79,610	108,412	129,495	141,774	141,300	148,766	136,167	127,970
Tourism web site visits	147,875	126,754	138,048	117,588	116,109	93,418	105,374	129,682	74,653	69,270
Vistor guides distributed	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	175,000
Library										
Circulation Transactions	1,062,759	941,934	847,367	767,131	715,613	688,569	668,092	625,276	593,077	635,812
Reference	178,117	140,623	140,071	129,196	126,182	139,285	122,543	110,053	115,234	124,929
Computer use	240,257	235,080	231,601	206,687	176,168	177,092	147,035	126,488	84,285	83,903
Program attendance	14,526	24,552	14,490	16,594	12,323	13,785	17,548	15,074	28,159	15,532
Visitor count***	759,840	814,129	997,912	973,869	942,224	909,939	877,477	808,196	748,834	743,776
Meeting room use	1,126	1,193	1,218	1,223	1,330	1,140	1,029	1,029	1,520	-
Schools										
Average Daily Students	27,701	28,183	28,610	29,023	29,441	30,218	30,635	30,827	31,358	31,535

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

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

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Function/Program										
Police										
Patrol Units	237	253	240	224	221	224	222	222	222	217
Boat	3	2	2	1	1	1	1	1	-	-
Fire										
Stations	11	11	11	10	10	10	10	10	10	9
Fire Trucks	26	23	23	25	24	22	20	19	17	16
Ambulances	17	17	17	17	16	16	16	16	18	18
Boats	2	2	2	2	2	2	1	1	1	-
Engineering										
Streetlights	20,033	19,780	19,645	19,616	20,411	19,791	19,760	18,660	19,507	19,186
Traffic Lights	253	255	253	253	258	256	256	255	251	249
Parks and Recreation										
Parks	35	35	35	35	32	32	19	19	19	19
Acreage	9,119	9,119	9,119	9,119	9,119	9,939	8,978	8,978	8,978	8,978
Athletic Fields	97	97	97	97	102	102	77	77	77	76
Mini-parks	3	3	3	3	3	4	6	6	6	6
Beach/Waterfront Areas	8	8	8	8	4	4	6	6	6	6
Boat Ramps	7	7	7	9	5	5	3	3	3	3
Golf Courses	2	2	2	2	2	2	2	2	2	2
Swimming Pools	3	3	3	3	3	3	3	3	3	3
Tennis Courts (free)	57	57	57	65	56	57	60	60	60	60
Tennis Courts (pay)	24	24	24	20	20	24	20	20	20	20
Squares	3	3	3	3	2	5	3	3	3	3
Library										
Books	273,640	325,370	324,531	340,733	333,176	464,194	456,791	444,328	437,324	443,977
Paperbacks	17,374	19,914	21,276	21,173	20,382	24,758	23,443	19,047	17,174	16,053
Videos /DVD's	26,859	26,270	21,259	19,910	15,128	12,821	11,330	9,416	7,018	6,266
Cassettes/Compact Disks	20,960	22,911	20,605	16,359	12,453	21,227	19,683	18,202	17,107	15,566
Microfilm	-	-	-	-	5,320	9,216	9,176	9,124	9,080	9,066
Microfiche	-	-	-	-	-	1,060	1,060	1,060	1,060	1,060
Waterworks										
Miles of Pipe	1,746	1,798	1,780	1,786	1,785	1,781	1,772	1,763	1,754	1,740
Fire Hydrants	10,874	10,821	10,700	10,650	10,129	9,944	9,843	9,704	9,595	9,287
Public Works										
Refuse Carts	79,056	82,023	76,607	76,729	76,725	76,202	76,491	76,029	71,164	1,556
Streets (miles)	666	505	505	504	504	503	503	502	502	501
Lanes (miles)	1,513	1,191	1,184	1,183	1,183	1,180	1,180	1,177	1,177	1,175
Sanitary sewers (miles)*	709	554	572	572	708	708	602	602	602	602
Storm sewers (miles)*	542	542	487	487	659	605	605	605	555	537
Pump Stations	185	177	179	179	175	171	170	-	-	-
Schools										
Early Childhood centers	4	4	4	4	4	4	4	4	3	3
Elementary schools	24	25	26	26	26	25	27	27	27	27
Middle schools	7	7	7	7	8	8	7	7	8	8
High schools	5	5	5	5	5	5	5	5	5	5
Elem-Middle combo schools	1	1	1	1	1	1	1	1	1	1

Sources: Various city departments.

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

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

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

We have audited the financial statements of the City of Newport News, Virginia (the "City") as of and for the year ended June 30, 2012, and have issued our report thereon dated December 4, 2012. Our report includes a reference to 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. Other auditors 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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: 2012-02 and 2012-03.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency: 2012-01.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the City in a separate letter dated December 4, 2012.

Management's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of City Council, management, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekaert + Holland, L.L.P.

Richmond, Virginia
December 4, 2012

Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the City of Newport News, Virginia (the "City"), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City, complied, in all material respects, with the 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, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-05 and 2012-06.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-04 to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-07 to be a significant deficiency.

Management's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit management's responses and, accordingly, we express no opinion on the responses.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information and use of City Council, management, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekaert + Holland, L.L.P.

Richmond, Virginia
December 20, 2012

CITY OF NEWPORT NEWS, VIRGINIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Granting Agency/Recipient State Agency	**CFDA Number**		**Federal Expenditures**
DEPARTMENT OF AGRICULTURE			
Pass-through Payments:			
Department of Social Services:			
State Administrative Matching Grants for Food Stamp Program (765-460-03; 765-452-13)	10.561		$ 2,368,766
ARRA-State Administrative Matching Grants for Food Stamp Program	10.561		-
Department of Agriculture:			
Food Distribution-Commodities	10.550		94
School Lunch Program-Commodities	10.555	$ 6,785	
Department of Education:			
School Breakfast Program (777-360-01; 777-360-03)	10.553	110,161	
Total Child Nutrition Cluster			116,946
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			
Direct Payments:			
Community Development Block Grant Program	14.218		1,438,665
Community Development Block Grants (B10-MC-51-0015)			
Community Development Block Grant ARRA Entitl Grants (B09-MY-51-0015)	14.253		21,597
Homelessness Prevention & Rapid Re-Housing (Recovery Act Funded)	14.257		35,660
Pass-through Payments:			
Department of Housing & Community Development:			
Neighborhood Stabilization Program (08-NSP-05)	14.228		266,660
Home Investment in Affordable Housing (M-10-MC-51-0202)	14.239		749,033
Economic Development Initiative Special Projects (B08-SP-VA-0709)	14.251		261,011
DEPARTMENT OF JUSTICE			
Direct Payments -			
Office of Justice Programs:			
Community Prosecution and Project Safe Neighborhoods(140-309-01)	16.609		43,497
	16.710		72,844
Edward Byrne Memorial Justice Assistance Grants (2010-DJ-BX-0899)	16.738		237,981
Pass-through Payments:			
Department of Criminal Justice Service:			
Victims of Crime Act (VOCA) (140-390-01)	16.575		263,351
Drug Control & System improvement - Formula Grant (140-390-01)	16.579		106,014
Office of Juvenile Justice & Delinquency Prevention			
Juvenile Accountability Incentive Block Grants (140-390-01)	16.523		31,170
Part E-Developing, Testing and Demo Prom New Prgms (2009-JL-FX-0291)	16.541		36,340
DEPARTMENT OF TRANSPORTATION			
Pass-through Payments:			
Va Department of Transportation:			
Highway Planning & Construction	20.205		1,052,919
Highway Planning & Construction--ARRA Funded	20.205		1,017,881
Va Department of Motor Vehicles:			
State & Community Highway Safety (SC-2011-51172-4114)	20.600		9,066
Alcohol Open Container-Project Grants (154AL-2010-50341)	20.607		25,752
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
Direct Payments -			
National Leadership Grants	45.312		3,537
Totals, page 1			$ 8,158,784

CITY OF NEWPORT NEWS, VIRGINIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Granting Agency/Recipient State Agency	**CFDA Number**		**Federal Expenditures**
DEPARTMENT OF ENERGY			
Direct Payments:			
Energy Efficiency & Conservation Block Grant Prgm-ARRA (DE-SC0002677)	81.128		$ 1,073,076
DEPARTMENT OF HEALTH & HUMAN SERVICES			
Pass-through Payments:			
Department of Social Services:			
Promoting Safe and Stable Families (765-469-01)	93.556		9,831
Temporary Assistance for Needy Families (765-452-01; 765-460-03)	93.558		3,047,228
Refugee and Entrant Assistance (765-460-03; 765-491-02)	93.566		27,792
Low-Income Home Energy Assistance (765-460-03)	93.568		219,785
Child Care and Development Block Grant Act of 1990 (765-452-15)	93.575	1,220,892	
Child Care and Development Mandatory Matching Funds (765-460-03)	93.596	1,511,524	
Total Child Care Cluster			2,732,416
Chafee Education and Training Vouchers Program (765-469-01)	93.599		17,498
Child Welfare Services State Grants (765-460-06)	93.645		8,646
Foster Care - Title IV-E (765-460-03; 765-460-06; 765-469-01)	93.658		1,510,052
Adoption Assistance (765-460-03; 765-469-03)	93.659		2,007,361
Social Services Block Grant (765-460-03; 765-468-02; 765-469-01)	93.667		1,888,591
Independent Living (765-460-03; 765-469-01)	93.674		50,265
State Children's Insurance Program (765-460-03)	93.767		68,743
Medical Assistance Program - Title XIX (765-460-03;)	93.778		1,807,477
Department of Criminal Justice Services			
Children's Justice Grants to States	93.643		2,500
Department of Health:			
Injury Prevention & Control Research & State and Comm Programs	93.136		1,132
SOCIAL SECURITY ADMINISTRATION			
Direct Payments:			
Social Security Incentive Program	96.006		6,000
DEPARTMENT OF HOMELAND SECURITY			
Direct Payments:			
Cooperating Technical Partners (EMP-2005-GR-3717)	97.045		100,000
Pass-through Payments:			
Department of Emergency Management:			
Urban Areas Security Initiative (127-775-01)	97.008		19,451
Disaster Grants-Public Assistance (DR-1862, DR-1661, DR-4024)	97.036		2,172,444
Emergency Management Performance Grants (127-775-01)	97.042		52,408
Port Security Grant Program (127-775-01)	97.056		297,385
State Homeland Security Program (127-775-01)	97.073		29,217
Totals, page 2			17,149,298
Grand Totals			$ 25,308,082

Note: This report does not include Newport News Public Schools (NNPS) and Peninsula Airport Commission (PAC) programs. NNPS has conducted a separate audit and that report is issued by NNPS. PAC was required to have a single audit for FY2012 that is issued separately.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Newport News, Virginia (the City), except the Peninsula Airport Commission and the Newport News Public Schools, which have separate Single Audit Reports. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(2) Relationship to Basic Financial Statements

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

	Federal expenditures
General Fund	$ 15,764,451
Special Revenue Funds	9,543,631
Total expenditures	$ 25,308,082

CITY OF NEWPORT NEWS

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

A. Summary of Auditors' Results

1. The type of report issued on the basic financial statements: **Unqualified opinion**

2. Significant deficiencies in internal control disclosed by the audit of the financial statements**: Yes, finding 2012-01**

3. Material weaknesses in internal control disclosed by the audit of financial statements: **Yes, findings 2012-02 and 2012-03**

4. Noncompliance, which is material to the financial statements: **No**

5. Significant deficiencies in internal control over major programs: **Yes, finding 2012-07**

6. Material weaknesses in internal control over major programs: **Yes, finding 2012-04**

7. The type of report issued on compliance for major programs: **Unqualified opinion**

8. Any audit findings which are required to be reported under Section 510(a) of Office of Management and Budget (OMB) Circular A-133: **Yes, findings 2012-05 and 2012-06**

9. The programs tested as major programs were:

CFDA Number	Name of Federal Program or Cluster
14.218-CL	CDBG – Entitlement Grants Cluster
14.228	ARRA – National Stabilization Program
14.239	Home Investment Partnerships Program
14.253-CL	ARRA – CDBG - State – Entitlement Cluster
93.575-CL	Child Care and Development Fund Cluster
81.128	ARRA – Energy Efficiency and Conservation Block Grant Program
93.568	Low-Income Home Energy Assistance
20.205-CL	ARRA – Highway Planning and Construction Cluster
97.036	Disaster Grants – Public Assistance

10. Dollar threshold used to distinguish between type A and type B programs: $759,242

11. City of Newport News qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **Yes**

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

2012-01 Virginia Retirement System Reporting

Criteria:

Local governments participating in the Virginia Retirement System (VRS) must provide the following information on all eligible employees to VRS:

1. Reported to the VRS for retirement, life insurance and/or retiree health insurance credit,
2. The employee's creditable compensation includes all eligible salary, exclusive of overtime, supplements, extraordinary pay, and termination pay for annual or sick leave,
3. The employee's base pay includes all eligible salary, exclusive of overtime, supplements, extraordinary pay, and termination pay for annual or sick leave, and
4. The employee's pay was not reduced for contributions if the employer has assumed the employee share.

Condition:

During our testing of proper reporting to the Virginia Retirement System, we noted 8 instances where the employee’s creditable compensations and base pay was not accurately reported. Internal control processes were not operating effectively to ensure accurate reporting of VRS eligible employees.

Cause:

VRS reports are not reconciled to the City’s payroll ledger.

Effect:

Inaccurate reporting to VRS could lead to inaccurate calculations of pension and other post-employment benefits costs and actuarial calculated liabilities.

Recommendation:

We recommend that the process for ensuring the accuracy of VRS reporting is properly reviewed and that compensation reported is reconciled to the City’s payroll ledger.

Management Response:

Management is in agreement with the recommendations and will establish a process which will reconcile the reported compensation to the City’s payroll records.

2012-02 Capital Assets

Criteria:

The City is required to initiate, authorize, record, process, reconcile and report financial data in accordance with generally accepted accounting principles. In order to prepare financial statements in accordance with generally accepted accounting principles (GAAP), accurate and complete subsidiary records must be maintained and City policies must be defined for consistent and accurate presentation of the financial position of the City at the end of the year.

Condition:

1. During our testing of capital asset additions, we noted certain software costs that did not meet capitalization requirements. Also during our testing of capital asset additions, we noted that a parcel of land was acquired on an installment plan in which the note payable was not recorded in the subsidiary ledger.

2. During our testing of capital asset disposals, we noted three assets that were disposed of at auction that were not recorded as disposals as the assets were never captured and capitalized. These assets should have been capitalized when acquired based upon the City's capitalization policy at the time of acquisition.

Cause:

1. The City's Finance Department is not included in the approval process of the coding of purchase orders. In addition, capital asset subsidiary records are currently not maintained within the City's accounting system.

2. The City's Capital Asset Policy should include a procedure for collecting all required information for surplus assets and their ultimate disposal, including accounting for all asset tags, in the fixed assets ledger as well as the General Ledger.

Effect:

1. An overstatement of machinery and equipment and related depreciation expense, as well as an understatement of notes payable and related interest expense.

2. An understatement of capital assets, depreciation expense and related gain on disposals.

3. Maintaining capital asset subsidiary records outside of the accounting system increases the risk of data loss and/or data corruption. In addition, the current process does not maintain a sufficient audit trail to determine if changes were made to individual assets and by whom or why those changes were made.

Recommendation:

1. We recommend the incorporation of the Finance Department with the approval process of purchase order account coding to ensure a complete and accurate listing of capital asset additions and proper classification of expenses.

2. We recommend that the City develop written capital asset policy and procedure manuals. These manuals should document a central location for surplus capital assets for collection of asset tags to ensure a complete listing of assets disposed. Capital asset policies should also include a physical inventory count of capital assets on a cyclical basis.

3. We recommend that the City develop or acquire a subsidiary ledger that will integrate with the current accounting system to ensure accurate and complete information is maintained.

Management Response:

Management is in agreement with the findings and recommendations. It is the City's intent to install a Fixed Asset module of its existing ERP system. In conjunction with the installation, the Finance Department will review all Capital Asset processes to ensure all appropriate controls are in place to provide for the proper reporting of all asset transactions.

2012-03 Bonds Payable

Criteria:

The City is required to initiate, authorize, record, process, reconcile and report financial data in accordance with generally accepted accounting principles. In order to prepare financial statements in accordance with generally accepted accounting principles (GAAP), accurate and complete subsidiary records must be maintained and City policies must be defined for consistent and accurate presentation of the financial position of the City at the end of the year.

Condition:

1. During our testing of bond premiums, we noted that the premiums on refunded bonds were not properly recorded.

2. During our testing of bond issuance costs, we noted that certain escrow deposits were improperly capitalized as issuance costs.

Cause:

Interim financial statements and debt schedules are not prepared or reviewed after each bond issuance.

Effect:

1. An overstatement of bond premiums and related amortization expense.

2. An overstatement of bond issuance costs and related amortization expense.

Recommendation:

We recommend that subsequent to each bond issuance, interim financial statements are prepared for the Bond Fund and the year-end debt schedules are prepared and reviewed for proper presentation in accordance with GAAP.

Management Response:

Management is in agreement and will incorporate the recommendation into the City's process for issuing and refunding its debt.

C. Findings and Questioned Costs Relating to Federal Awards:

2012-04 Subrecipient Monitoring

Community Development Block Grant Cluster – CFDA 14.218-CL

Neighborhood Stabilization Program – CFDA 14.228

Home Investment Partnerships Program – CFDA 14.239

ARRA – Community Development Block Grant Entitlement Cluster – CFDA 14.253-CL

Criteria:

The City, as the pass-through entity, should monitor subrecipient activities to provide reasonable assurance that the subrecipient administered Federal awards is in compliance with Federal requirements through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Monitoring activities normally occur throughout the year and may take various forms.

Condition:

1. The City did not perform annual formal monitoring of the CDBG subrecipient, for reimbursement amounts received during FY2010-2011 in a timely manner. To ensure compliance with CDBG Program Guidance, the City's formal monitoring tasks should be performed annually. Because subrecipient monitoring was not conducted in a timely manner, the City was unaware that the subrecipient was late in monitoring its subrecipients.

2. The City's sample for formal monitoring only included review of the subrecipient's monitoring of its non-profit subrecipients; this sample was not representative of the population in that only one type of CDBG activity was monitored. The formal monitoring conducted by the City was merely a review of the subrecipient's monitoring and cannot be considered complete.

3. The City did not perform annual formal monitoring of the NSP subrecipient, for reimbursement amounts received during FY2010-2011 in a timely manner. Although it is not within the time period of this audit, it is important to note that subrecipient monitoring for FY2009-2010 was also

not performed until October of 2012. To ensure compliance with NSP Program Guidance, the City's formal monitoring tasks should be performed annually.

4. The City did not perform during-the-award monitoring of the NSP subrecipient, and the oversight and monitoring of the Program was insufficient.

5. The City did not perform annual formal monitoring of the HOME subrecipient, for reimbursement amounts received during FY2010-2011 in a timely manner. To ensure compliance with HOME Program Guidance, the City's formal monitoring tasks should be performed annually.

6. The City did not perform annual formal monitoring of the CDBG-R subrecipient NNRHA, for reimbursement amounts received during FY2010-2011 in a timely manner. To ensure compliance with CDBG-R Program Guidance, the City's formal monitoring tasks should be performed annually.

Cause:

The City did not begin the monitoring process until October of 2012 because the City did not devote adequate time, attention, and resources to the task of formal monitoring and program oversight.

Effect:

Without timely monitoring, the City is not able to provide adequate assurance that federal funds received and paid to subrecipients are in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved and are also unable take corrective action to address any non-compliance issues in a timely manner. Non-compliance with OMB Circular A-133 requirements may result in the loss of federal grant funds and/or the repayment by the City of Newport News of such funds.

Recommendation:

We recommend that the City initiate a formal monitoring process at the beginning of each program year by selecting a sample of programs to monitor throughout the program year. The City should develop an internal monitoring checklist to be used during the drawdown request approval process for those programs. This checklist should include attribute testing that is in line with the requirements as directed in OMB Circular A-133 Compliance Supplement. The checklist may be constructed using the HUD monitoring exhibits as a guideline and would be a part of the process for each drawdown request approval.

City has a secure web-based drop box which is shared with their subrecipient. The subrecipient scans all supporting documentation for drawdown requests into the drop box. When selecting an activity as part of the formal monitoring sample, all of the documents located in that particular activity or program's file at subrecipient (such as the agreements, contracts, etc.) should be scanned into the drop box so that City can create a monitoring folder which would include all documentation pertaining to that program. Then, as each drawdown request comes through for that particular program, the City would use the checklist as part of the approval process and file the checklist with that program's monitoring file. This practice would spread the "formal" monitoring process period over the course of the program year, which would ensure that the monitoring is completed in a timely manner and would make the formal monitoring process less burdensome.

Management Response:

Although City staff meets and communicates often with subrecipient staff, formal monitoring has always been a challenge. There are many instances where staff members met and discussed various program activities but no notes or checklists were completed to document. Staff from the City, as other priorities evolved, often found formal monitoring of the full Program to be too time consuming and cumbersome to complete at one time.

This City will develop internal checklists to document review of activities throughout the year as individual draws for funds are approved for activities. Additionally, City staff will pick at least one program file per month to review subrecipient activities.

2012-05 Eligibility

Child Care and Development Fund Cluster – CFDA 93.575-CL

Criteria:

Lead Agencies shall recover child care payments that are the result of fraud. These payments shall be recovered from the party responsible for committing the fraud.

Condition:

For one of the 25 Child Care cases tested, we found a client whose case was closed in 2001 owing $474, had re-applied & received child care services in 2009 for three months before her case was closed after she stopped using child care. After she re-applied in January 2011, the case worker checked the NNDHS Fraud Unit's report of Child Care payments 30 Days Past Due, found that the Client owed $474 for services in June 2001. The Client was then required to sign a Repayment Agreement with the Fraud Unit. When she did not comply with the terms of the Agreement, the case should have been closed and no further child care services provided.

When the Client re-applied for Child Care in 2009, there was no record of her having previously received services because the case was closed and purged in error. She received services for one of her children from October through December 2009, before the case was closed in January 2010, because she stopped using Child Care services. At that point, she owed an additional $250 in co-pays to the provider. When she then re-applied for services in January 2011, her responsibility to re-pay the $250 to the Child Care provider was documented in her case. Her new Case Worker also found that the Department had previously attempted to attach a tax refund without success.

On February 16, 2011, the Client signed a Repayment Agreement with the local Fraud Unit. Although she agreed to make the first payment of $20 on March 15, 2011, and each month until the full amount was repaid, she did not make any payment until October 3, 2011, when she paid $60 and then made a second payment of $50 on May 3, 2012.

Cause:

Although the City had noted in the case narrative that payments were not being made, the City understood that as long as some payment was made the City could continue paying for child care so the Client could continue working. This practice resulted from applying an outdated policy which allowed such cases to remain open if any payment was made to allow a client to eventually repay what was owed.

Effect:

Child Care payments were made from June 2011 through August 2012, due to worker error when the Child Care case should have been closed in June 2011, after 90 days passed with no payment was received from the client.

Recommendation:

Although the Child Care Supervisors stressed that training has been provided on numerous occasions to ensure that Case Workers are kept aware of policy changes as they occur, it appears that each Worker should perform a review of their individual caseloads as requested in the Supervisory memo we were copied on to ensure that they are following current policies.

As of January 1, 2012, the new Virginia Case Management System (VaCMS) requires that a client must sign a restitution agreement with a Fraud representative after the disposition has been found as an overpayment. If the client does not adhere to the repayment agreement, the notice must be sent to close the case after the first payment is missed.

Management Response:

Upon supervisory review of this error with all Child Care staff, it was determined that this appears to be an isolated event occurring with this single worker. After supervisory consultation with this worker, there is no explanation for the worker error as extensive training had occurred with all Child Care staff to instruct of the successive dual changes in Child Care Guidance for correct response to restitution overpayments. This worker had noted on her case management monitor tool of all cases listed that restitution payments were due for this client, giving the impression that the issue was being consistently pursued. Monthly reviews by the supervisor of this tool were interpreted to indicate that the restitution payments were being addressed and monitored timely.

Following consultation with the Auditor of this error, the supervisor immediately instructed staff to complete a review of all active cases with restitution owed to ensure that payments are either current to the agency or that actions were taken to close out the case per policy. In addition, a separate tool has been developed for staff to input all Fraud referrals, including referral dates, dispositions, the repayment requirements and a monthly record to ensure that each month's required payment in restitution is satisfied. This form will be submitted each month to the supervisor along with other currently required monthly reports for review. It will be readily visible to both the worker and the supervisor if actions are being appropriately maintained by both the client and the worker for correct application of Guidance procedure. In addition, the information from this tool will be included in the closing summary record long-term if the case should be closed and sent to closed files. This will ensure that the information will be readily evident in both the case record and the VaCMS system narrative in the event that the client reapplies for Child Care services to further require that restitution payments resume prior to authorization of any future services.

2012-06 Allowability

Child Care and Development Fund Cluster – CFDA 93.575-CL

Criteria:

1. In 2011, Departmental policy required the case worker to change the payment rate to the new rate (in this case, the School Age rate) if a child turned five years old before September 30th. The child in this case turned five years old on July 6, 2011.

2. Prior to January 1, 2012, Case Workers were responsible for entering the information into STARS to prepare the monthly purchase orders to pay the Child Care Providers for services provided to the children in their caseloads.

Condition:

1. For one of the 25 Child Care cases tested, the City continued to use the Preschool rate for full days & part days for the September through December payments to the Child Care Provider although the child had turned five years old on July 6, 2011. The correct payment rates were not applied to calculate the monthly payments for Child Care services until January 2012 when the new VaCMS assumed control of payments to Child Care providers.

2. For one of the 25 Child Care cases tested, the City mistakenly used the older sibling's Special Needs Rate rather than the correct unit rate that should have been used to calculate the payments for Child Care services for July through October 2011. The City continued to use the wrong unit cost to prepare the monthly payments in STARS until noticing the error while preparing the November 2011 payment.

Cause:

1. The City overlooked the fact that the child had a birthday in July as the City did not use the lower payment rate beginning in September 2011 when entering payment information into STARS to create the monthly purchase orders.
2. The City did not notice that improperly using the older sibling's Special Needs Rate for the younger child who did not have any documented Special Needs. The City has heavy caseloads and has to deal with many changes in their Clients' situations increasing the possibility of such errors occurring.

Effect:

1. The City's error resulted in overpayments made to the Provider from September through December.
2. The City's error resulted in overpayments made to the Provider for four months for the younger child's care. After noticing the error, the City used the correct rate for the younger child for November and December of 2011.

Recommendation:

With implementation of the new VaCMS, the State DSS has assumed responsibility for all aspects of payments made to Child Care Providers. Case Workers should still review the information in VaCMS for their cases, paying particular attention to changes in their clients' situations to limit the chances of such errors occurring and not being caught.

Management Response:

The possibility of a recurrence of this error are greatly reduced due to the implementation of VaCMS, which requires that the worker give more extensive information and documentation into that system for qualification of a child as meriting a special needs rate. Going forward the VaCMS system will alert a worker for a change in rates needed for time periods and changes in a child's age.

2012-07 Eligibility

Low-Income Home Energy Assistance – CFDA 81.128

Criteria:

The documentation requirements for Low-Income Home Energy Assistance are contained in A-87, Attachment C, paragraph E. All plans and related documentation used as a basis for claiming costs under Federal awards must be retained for audit in accordance with the record retention requirements contained in the A-102 Common Rule.

Condition:

Documentation supporting grant activity was not properly retained per A-102 Common Rule or City Policy. Backup copies of documentation were able to be generated from the State to support the City's activities.

Cause:

A lack of functioning controls over participant documentation retention; City Human Service did not follow City approval procedures and documentation policies.

Effect:

Non-compliance with record retention requirements may result in the loss of federal grant funds and/or the repayment by the City of Newport News of such funds.

Recommendation:

The City should implement corrective action aimed at enhancing internal controls related to participant eligibility to ensure that accurate and complete documentation supporting all participant intake information is maintained, in accordance with City and federal record retention requirements.

Management Response:

Management is in agreement with the findings and recommendations, and staff has taken corrective action to ensure that proper record retention guidelines are followed in the future.

D. Resolution of Prior Year Findings: None noted

Comprehensive Annual Financial Report 2012

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City of Newport News, Virginia