



COMPREHENSIVE ANNUAL FINANCIAL REPORT 2017

CITY OF NEWPORT NEWS, VIRGINIA

FISCAL YEAR ENDED
JUNE 30, 2017



On the cover



Photograph by Michael Poplawski

The Newport News Park Campground Office was opened in FY2017. The campground is located within Newport News Park, one of the largest municipal parks east of the Mississippi. The park's magnificent 7,711 acre-oasis is home to an incredible variety of native wildlife – deer, foxes, otter, raccoon and beaver, to name a few – all found in a natural setting of lush woodlands, flowering meadows and shimmering lakes. With 188 campsites available, its unique natural beauty makes Newport News Park Campground a favorite destination for campers who love the great outdoors – and the convenience of being just moments away from the multitude of activities and attractions the surrounding area provides.

CITY OF NEWPORT NEWS, VIRGINIA

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2017

Prepared by the
Department of Finance

2400 Washington Avenue
Newport News, VA 23607

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November 21, 2017

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, 2017 (FY 2017).

Cherry Bekaert LLP, Certified Public Accountants, conducted the audit of the City's financial statements for the year ended June 30, 2017, and have issued an unmodified ("clean") opinion on those statements. The independent auditor's report is located at the front of the Financial Section of this report.

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

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

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

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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 69.2 square miles with a population of 181,825, based on the 2017 census estimates.

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

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

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

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

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

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

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

Local Economy

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

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

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

Newport News Public School System

One of the most important services provided by a city to its taxpayers is the education of the children of the community. Schools provides a full range of public education services to approximately 29,400 students in 5 early childhood centers, 24 elementary schools, 7 middle schools, 5 high schools, 1 combination middle/high school, and 10 program sites.

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

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

Economic Condition and Outlook

A city's economic condition is only as good as the condition of its businesses and its taxpayers; Newport News is blessed with a diversity of contributors to the local economy - corporate,

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

Unemployment rates in Newport News are on par with the national average. As of June 2017, the national unemployment rate (not seasonally adjusted) was 4.4%, compared to the City's rate of 4.8%. In 2016, the national and local rates were 4.9% and 5.0% respectively.

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

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

Corporate Research at Tech Center & Jefferson Lab Activity

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

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

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

This \$250 million mixed-use development began with its first phase of construction (representing \$160 million in investment) in February 2014. Named The Marketplace at Tech Center, this phase of quality retail offerings was complete by the end of 2015. Venture Apartments, a higher-end, 288-unit multifamily complex, has begun leasing in two of the three buildings and a groundbreaking ceremony was held in August 2017 for Building One @ Tech Center, the first research office building.

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

Liebherr Mining Equipment Company

Liebherr Mining Equipment Company, located in the southern Copeland Industrial Park, manufactures very large trucks for transporting ore, each selling at a seven-figure price. In February 2013, Liebherr announced it would invest \$45.4 million to expand its operation in the Cities of Newport News and Hampton.

Liebherr continues to invest in the company's Newport News facility. Most recently, the company completed a major overhaul of the loading dock area located at the end of its primary warehousing facility, adjacent to Chestnut Avenue. The loading dock project allows for more efficient offloading product flow. Landscaping and beautification efforts along Chestnut Avenue were also included as a part of this project.

Much-needed improvements to City Line Road are now underway. When completed, the upgraded roadway will be able to withstand the transporting of frames to an adjacent business. As construction of the improved road continues, Liebherr will eventually be able to improve overall product flow throughout its facility by utilizing the access point along City Line Road for the transporting of finished goods from the facility to accommodate the company's ongoing expansion and increase in production.

Canon Virginia, Inc.

Since 2013, Canon has made capital investments exceeding \$45 million and the company continues to invest in and make improvements to its Newport News facility. Newport News is Canon's only U.S. manufacturing headquarters, serving as the manufacturing, engineering, recycling and technical support center for all the Americas.

University of Virginia/Virginia Tech Joint Education Center

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

The success of the UVA/Virginia Tech Center continued throughout 2016. Examples of programs and courses provided at the Newport News Center in 2016 included various lunch-and-learn opportunities, graduate coursework in the fields of public management and educational leadership, Project Management Professional (PMP) certification courses and

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emotional intelligence training seminars. The options that the University of Virginia and Virginia Tech bring to the table, both individually and in a collaborative manner, have proven to be a valuable resource to Newport News businesses.

Huntington Ingalls Industries

Huntington Ingalls Industries is the State's largest private employer with nearly 22,000 workers employed in the City at its Newport News Shipbuilding division (Shipyard) and its affiliated companies. In addition to the capital investment being made in its submarine construction facilities, the Shipyard continues to make major investments in the upgrade and maintenance of its existing facilities as well as its human capital, typically in tens of millions of dollars annually.

Shipbuilding and repair remains exceptionally strong. The Shipyard will work jointly with Connecticut-based Electric Boat to build a new fleet of Columbia-class ballistic missile submarines for the Navy to replace the aging Ohio-class subs. To support this effort, the yard will invest more than \$750 million in its facility, and will create 1,000 new jobs by the year 2025.

As part of the facility improvements, the Shipyard will modernize its Foundry facility, which dates back to 1856. The Foundry improvements are anticipated to cost over \$43 million and will allow the Shipyard to meet new, higher component standards established by the Navy for submarines and aircraft carriers.

In addition to improvements at the Foundry, the Shipyard will also expand its Joint Manufacturing and Assembly Facility, located on the North Yard of the Shipyard. The new manufacturing facility will be used not only for the Columbia Class Submarine Program, but also to promote efficiencies in the Shipyard's other programs.

This major advanced shipbuilding project will receive assistance from the City, through its Defense Production Zone Program, from the Commonwealth of Virginia and from the U.S. Navy. The Shipyard's significant capital investment and job creation will produce immeasurable benefits to Newport News and to Virginia, and this impressive project solidifies the Shipyard's successful future in Newport News.

Newport News Industrial

In June 2016, Newport News Industrial (NNI) announced plans for a major expansion project at the company's headquarters facility in Oakland Industrial Park. The expansion is slated to almost double the company's presence in Oakland Industrial Park by adding approximately 52,000 square feet to the existing 66,000 square foot facility. In addition, NNI will be installing a variety of heavy machinery and cranes necessary for the increase in steel fabrication work being undertaken. This investment in facilities and machinery will serve to support NNI's expanding efforts as a supplier to the nuclear power facility industry. In addition to the \$20 million investment the expansion represents, the company announced the increased workload will lead to the creation of at least 120 new positions for highly skilled workers.

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Brooks Crossing

The year 2016 was a monumental year for the Brooks Crossing mixed-use development project, as Phase One and Two of the project's infrastructure, (the new South Police Precinct facility and the new pioneering community grocery store, Jim's Local Market) were completed. Concurrent with the construction of the grocery store, the Brooks Crossing Developer constructed adjacent retail spaces to supplement the services and offerings for the community. Eagle's Nest Learning Center opened in October, in 6,457 square feet of space.

The momentum continued with the announcement in December 2016 of the next phase of Brooks Crossing Project development, to include a collaborative partnership to construct a 95,000-square-foot office building in the Project. Southeast Commerce Center Associates, the entity formed between former Southeast Community native Aaron Brooks and Armada Hoffer Properties, the publicly-traded Real Estate Investment Trust (REIT), will develop, construct and own the building. Newport News Shipbuilding, a division of Huntington Ingalls Industries, plans to lease and occupy 80,000 square feet of the building, where it plans to locate nearly 600 engineering and design personnel. The EDA will lease the remaining 15,000 square feet, to be used as collaboration space for innovation and new ventures, including STEM education and entrepreneurial initiatives.

Jim's Local Market

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

In May 2016, the City of Newport News, EDA and the community celebrated the ribbon-cutting and grand opening event for the long-awaited Jim's Local Market (the Market). The Market serves as the first full-service grocery store in the Southeast Community in over two years. Through the use of New Markets Tax Credits, the City and EDA were able to significantly lower the costs of building the impressive 28,000-square-foot grocery store building. The Market provides affordable, healthy, nutritional food choices, and carries a wide assortment of goods in a clean, safe environment, with easy access for the community.

Seafood Industrial Park

2016 continued to be an important year of progress for the City's Seafood Industrial Park (SIP). In May 2015, the Virginia Port Authority (VPA) awarded the City an Aid to Local Ports Grant of \$638,292 to help replace a mooring facility at the Seafood Industrial Park that has served the City well, but has exceeded its expected lifespan. The design will modify the facility to accommodate current large-scale vessel configurations as well as anticipate future sea level rise. The West Bulkhead replacement was completed during the summer of 2017. The VPA awarded the City another \$404,000 in grant funding during May 2017 for improvements to piers and dolphin moorings at the SIP's Outer Harbor.

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Recent investments by the Commonwealth in Virginia's wild-caught oyster industry and regulatory changes in the Atlantic Sea Scallop industry have resulted in increased economic activity at Virginia's largest municipality-owned seafood park. The park saw several businesses add capacity, including a new fish processing business and the opening of a fresh and frozen retail seafood market.

Fairlead Boatworks

Davis Boat Works, Inc., established in 1958 as a boatyard in commercial and military vessels, is the oldest existing tenant and largest employer at the Seafood Industrial Park (SIP). In 2015, 100% ownership of Davis Boat Works was transferred to a successful marine business, Fairlead Integrated, to grow the business at the SIP. Davis Boat Works, Inc. DBA Fairlead Boatworks, Inc., has expanded operations and added full-time skilled and management positions.

Eagle Technologies, LLC

Since its original founding in Newport News in 1996, Eagle Technologies, LLC has had several locations within Hampton Roads, and with the help of EDA staff, has once again found its home in Newport News. Eagle, which specializes in the design and manufacturing of helicopter rotor blades and other aircraft components, purchased the vacant former Daily Press building located at 7505 Warwick Boulevard in the beginning of 2015. Staff assisted Eagle through the rezoning and acquisition of the property, which contains three buildings totaling nearly 200,000 square feet of space. The property is located on Warwick Boulevard near Mercury Boulevard and the James River Bridge.

Ferguson Enterprises

Governor Terry McAuliffe announced in June 2017 that Ferguson Enterprises, Inc. (FEI), the largest wholesale plumbing distributor in the U.S., would expand its Newport News presence and create an additional campus in City Center at Oyster Point. The City Center campus will house 1,400 Ferguson employees working in information technology and other corporate functions. As part of the expansion, FEI will invest nearly \$83 million and create 434 new jobs. Newport News successfully competed against other locations in the Central and Pacific Time zones. Located in Newport News for 47 years, this expansion further solidifies the company's presence in the City.

City Center at Oyster Point

In July 2016, Pointe Hope, LLC, acquired a nine-building office and retail mixed-use portfolio in City Center at Oyster Point. Pointe Hope's \$64 million acquisition includes 574,466 square feet of office and retail space, which was originally developed as a master-planned, public-private partnership between the City of Newport News and nine local founding partners, with Northwestern Mutual as its joint venture equity partner. Pointe Hope, LLC, led by former Newport News Mayor Joseph Ritchie (an original founding partner of City Center) and

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Attorney Robert Long, consolidates City Center ownership into local investors committed to sustaining the development as the premier mixed-use business and residential center on the Virginia Peninsula. Pointe Hope's members include a number of City Center's original founding partners and several local entrepreneurs who are new investors. The principals are "hands-on" and wholly committed to expanding the entertainment and retail venues of City Center to build and continue the community's vibrancy.

Capital investment in City Center to date totals more than \$295 million, with a little less than 30% from the public sector. City Center will ultimately include 1,000,000 square feet of office space, 250,000 square feet of retail and entertainment and luxury residential development that has exceeded 600 units. Besides the Marriott, an additional hotel is envisioned at City Center. The mixed-use nature of City Center provides employees working there a host of amenities, including the ability to live within walking distance of work. Furthermore, the City and the EDA are planning additional mixed-use, high-density, high-quality development on approximately 35 acres of publicly-owned land to the east of City Center.

LTD Hospitality Group

In December 2016, LTD Hospitality Group purchased the former Magnuson hotel property in Oyster Point and will spend over \$14 million to renovate the 182-room hotel. Once the renovations are complete, the hotel will operate as a full-service Holiday Inn and will not only provide an additional quality lodging option in Newport News, but will also contribute additional conference and meeting space to the area. The City and Authority provided support through the City's Tourism Zone Program and LTD's project is expected to be an important contributor to the local tourism economy.

Applied Research Center

To support entrepreneurial innovation and technology companies in the City, the EDA instituted an Entrepreneurial Lease and Assistance Program in the Applied Research Center. Entrepreneurial and start-up businesses utilizing the new program include Ario, LLC, occupying 2,109 square feet on the second floor and specializing in designing and developing augmented reality, virtual reality and 3D applications that increase safety, efficiency and quality output for commercial, medical, construction and military industries; and J&F Alliance Group Inc., occupying 743 square feet on the second floor and specializing in services that support local, state, government and military infrastructures through responsive logistical support, information technology, administrative support, augmented, virtual, mixed reality solutions and more.

High Liner Foods

In 2016, High Liner Foods continued the company's record of strong growth and expansion in Newport News. Located in Oakland Industrial Park, the company invested over \$1.25 million in capital expenditures for building expansion and new machinery and tools. In addition, 36 new

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positions were created to export High Liner Foods' increased operational output from the Newport News facility. Through these investments, High Liner Foods remains poised to enter 2017 as one of the industry leaders in the provision of value-added seafood products for direct-to-consumer brands, as well as food service suppliers throughout the United States.

Printpack, Inc.

In 2016, Printpack Inc., one of the largest flexible packaging providers in the United States, embarked on a more than \$25 million expansion to its rigid packaging operations in Oakland Industrial Park. The project features a building expansion in excess of 150,000 square feet and will add at least 50 jobs. The privately-owned firm is the seventh largest plastics film and sheet manufacturer in North America, and pioneered barrier rigid containers for shelf-stable packaging. Its solid-phase, pressure-forming process transformed the market and has expanded the ease and convenience of plastic packaging to many product lines.

Sherwood Properties

In 2016, a transformative opportunity arose having the potential to positively impact the Upper Warwick Boulevard Corridor for years to come. The Authority leased property (the former MCI building – 75,708 square feet of office space) owned by Sherwood NN, LLC, at 13785 Warwick Boulevard, since 1995. In turn, the Authority subleased the building to Ferguson Enterprises. The entire Sherwood NN site, however, included six properties totaling 10.95 acres, and in August of 2016, the Authority successfully acquired the entire site.

The shopping center next door, Sherwood Shopping Center, located at 13771 Warwick Boulevard, was owned by Sherwood Associates, LLC, and had been for sale for a number of years. This property consisted of 9.42 acres, with 118,000 square feet of improved space and also included Ferguson as its anchor tenant (approximately 75,000 square feet). Concurrent with negotiating with Sherwood NN, the Authority negotiated the purchase of the 9.42-acre site from Sherwood Associates, successfully closing on the property in October of 2016.

Owning these two sites together results in the rare opportunity to control over 20 acres of developed commercial real estate with frontage on a major and highly travelled thoroughfare. Acquisition of the sites allows the Authority to help guide future development or redevelopment in this very important area of the City.

Tradition Brewing Company

The summer of 2016 saw the opening of Newport News' first craft brewery – Tradition Brewing Company. Started by a team of Newport News residents, Tradition Brewing Company adds a

CITY OF NEWPORT NEWS, VIRGINIA

new entertainment flavor to the Greater Oyster Point area. With a 20-barrel, state-of-the-art brewing system, a variety of flavor and style offerings including seasonal brews and a tasting room of over 4,000 square feet, Tradition Brewing Company has become one of the area's favorite destinations for after-work and weekend gatherings. The brewery has already attracted a number of live music acts and partners with the local food truck scene on a regular basis. The company's reach also goes beyond its walls, as several local bars have begun to carry select Tradition Brewing Company offerings on tap.

Children's Hospital of the King's Daughters

In October 2016, site clearing began at 11770 Rock Landing for a new pediatrics office facility, the latest component of Children's Hospital of The King's Daughters' (CHKD) continuing expansion in Newport News. The 2.94-acre parcel for the facility was purchased from the Authority in July 2016, and will help CHKD meet sought-after, non-emergency medical resources for families in Newport News and the greater Peninsula. Also in October, CHKD opened the Peninsula's first urgent care center just for kids in nearby Marketplace at Tech Center.

Other

Substantial development has also occurred in the City's "Cultural Corridor," which extends from Oyster Point to Christopher Newport University. In addition to the more than \$800 million in expansion and renovation to its hospital complex already completed by Riverside Health Systems, the Virginia Living Museum has doubled the size of its outdoor exhibit and expanded its building space by a factor of four with a \$21 million expansion. Christopher Newport University has completely transformed its campus and surrounding area with construction of multiple on and off-campus student housing facilities, a new library, the Robert L. Freeman Sports and Convocation Center, structured parking and the \$51 million CNU Ferguson Center for the Arts designed by I.M. Pei. Investment in recently completed projects and others in progress is approximately \$500 million, with future plans for the CNU Foundation's recent commercial purchases. A respected liberal arts institution, CNU is attracting most of its student body from beyond the Hampton Roads region.

The City is more than 95% developed, with most of its built environment oriented around automobile-dependent forms of development. New urbanism and sustainable development, which seek to recreate more pedestrian-friendly neighborhoods, have been successfully implemented in Newport News with such projects as City Center and Tech Center at Oyster Point, Port Warwick, Patrick Henry Place (under construction), Huntington Pointe (under construction) and Hilton Commons (in its planning phase). Recreating the City in this mode will be increasingly important for enhancing the City's quality of life and making it globally competitive to attract and retain a skilled, educated and creative labor force to support continued economic development.

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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 2018 to FY 2022 Capital Improvements Plan was approved by City Council on December 13, 2016. The CIP reflects the vision and priorities of the City Council for the construction and maintenance of the buildings and infrastructure improvements owned by the City. Although intended to be a commitment to a multi-year capital needs program, the CIP is fundamentally a planning document, subject to annual modification and amendment as changing priorities, availability of funding and other factors create the need for revision. Most projects in the CIP are funded by 20-year General Obligation Bonds issued by the City with level annual principal payments. The annual principal and interest payments (debt service) are budgeted in the City's annual operating budget. The General, Schools, Wastewater, Stormwater, and Solid Waste Funds each pay a proportionate share of principal and interest payments. The Waterworks Fund pays all of the debt service related to its capital projects. The FY 2018 Budget provides that the General Fund will pay 80%, or \$44 million, of the total debt service budget of \$55.2 million.

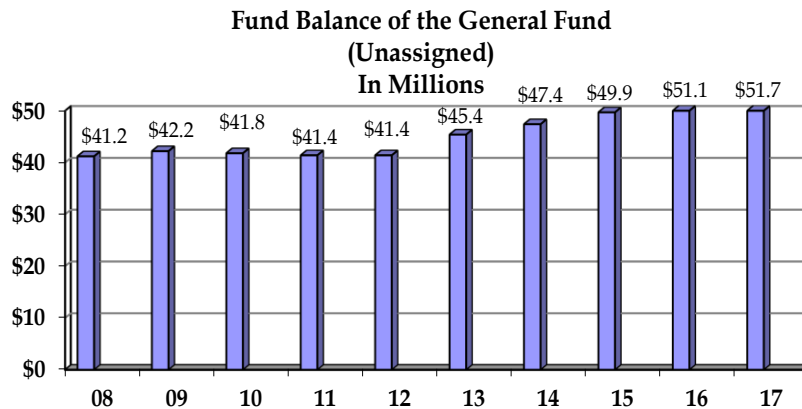
The City has adopted policies which guide its capital improvement planning and its issuance of long-term debt. These policies are intended to help the City maintain or improve its bond rating and keep changes in debt service obligations at levels that do not reduce the City's ability to provide acceptable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

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

- The goal of the City is to maintain its debt burden below 3.0%. Debt burden is defined as the ratio of outstanding general obligation debt and capital lease obligations to the total value of the taxable real and personal property. The projected FY 2018 debt burden is 2.3%.
- Debt service obligations are primarily funded from school and municipal revenues received through the Operating Budget. The City's informal policy is that the ratio of debt service obligations to General Fund revenue should not exceed nine and one-half percent (9.5%) in any fiscal year. For FY 2018 the ratio is projected to be 7.2%.
- The City's intent, when issuing new General Obligation debt or refinancing existing debt, is to structure principal payments so that at least thirty percent (30%) of the total outstanding debt is repaid within five years and that at least sixty percent (60%) is repaid within ten years. Currently 43% of the outstanding debt is scheduled to be paid in five years, with 74% paid in ten years.
- So that the City may manage its debt capacity and remain within the parameters of its Capital Financing and Debt Management Policies, the City Manager provides the City Council with a thorough debt impact analysis on any proposed undertaking that requires financing through the issuance of short or long-term debt obligations, capital leases or debt guarantees.

CITY OF NEWPORT NEWS, VIRGINIA

During FY 2017, General Fund expenditures exceeded revenue by \$2.7 million. The unassigned General Fund balance totaled \$51.1 million at June 30, 2017, or approximately 11.2% of annual General Fund revenues.



Since the recession began in September 2008, the real estate property tax base has experienced a decline of almost \$2 billion in assessments, resulting in a cumulative reduction in Real Estate Tax revenue of over \$20 million for the same time period. Fortunately, this loss was lower than some segments of the nation, but is consistent with nationwide decline in home prices and the lower market value of real estate. The revenue from Real Estate Taxes trended lower between FY 2009 and FY 2014, but was level for FY 2015 with slight increases in FY 2016 and FY 2017, indicating stabilization of the housing markets as well as new construction projects that are scheduled to be completed in the upcoming fiscal year.

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

The financial outlook for Fiscal Year 2017-2018 is stable with moderate revenue growth expected due to continued post-recession recovery coupled with potential new economic development, and separately, continued cost-saving efforts. We feel that current management initiatives, along with prudent long-range strategic and comprehensive planning, will enable the City to generate sufficient resources to meet future service demands, maintain a stable financial position, protect the City's high credit rating, and maintain realistic and affordable tax burdens on the citizens.

Significant Strategic Priority Accomplishments for FY 2017

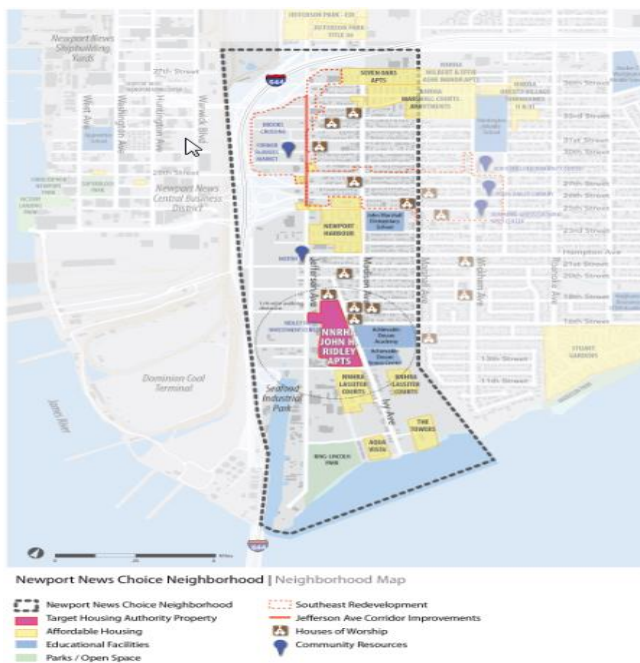
Of all of the significant accomplishments and initiatives undertaken or completed during the year ended June 30, 2017, some of the more significant are listed below.

CITY OF NEWPORT NEWS, VIRGINIA

Operational Efficiencies and Fiscal Management

- In May 2017, the financial rating agency Moody's upgraded the Waterworks revenue bond rating from Aa2 to Aa1, which is Moody's second highest rating. As indicated in the Moody's credit opinion, "the Aa1 rating reflects solid debt service coverage levels, satisfactory liquidity, low debt burden and a stable regionally important service area." Other strengths identified include Waterworks' formalized financial policies and capital planning strategy. Standard & Poor's ("S&P") re-affirmed the Waterworks revenue bond rating at AAA, S & P's highest bond rating. The S&P rating "reflects the rating agency's opinion of the combination of a very strong enterprise risk profile and an extremely strong financial risk profile. Factors driving the positive assessment of creditworthiness include a robust service area economy, a history and projection of annual rate adjustments with a focus on decreasing reliance on volumetric consumption driven revenue, management."
- In May 2017, the financial ratings agency Standard & Poor's (S&P) reaffirmed the City's long-term credit rating of AA+, which is S&P's second highest rating. A second rating agency, Moody's, also reaffirmed the City's Aa1 rating, the second highest they offer. A strong credit rating makes it easier for borrowers to gain access to capital, usually at a lower interest rate. Standard and Poor's assessed the City's outlook as stable noting, "The stable outlook reflects our view of Newport News' very strong fiscal management, which we believe has contributed to ties strong reserve and liquidity position." S&P also noted "the City's budgetary performance and debt profile will remain stable given the City's adherence to historical practices of adopting structurally balanced budgets..." S&P also went on to note that they do not anticipate changing the rating in the next two years.

Community Renewal, Maintenance and Enhancement



- In 2016, the City of Newport News and the Newport News Redevelopment and Housing Authority (NNRHA), were awarded a \$500,000 Choice Neighborhoods Initiative (CNI) Planning Grant through the U.S. Department of Housing and Urban Development. Choice Neighborhoods is an initiative that targets distressed public or assisted housing that needs to be revitalized or replaced and provides a comprehensive approach to neighborhood change. During the fiscal year, the City, in partnership with the NNRHA, kicked off the Choice Neighborhoods Initiative by working with residents, employers, non-profits, and other stakeholders to

CITY OF NEWPORT NEWS, VIRGINIA

identify assets and needs in the Marshall-Ridley Choice Neighborhood, a 1-square-mile area in the Southeast Community, and develop strategies to transform an area of the city most in need. The specific public housing complex identified for this grant by NNRHA was the 259-unit Ridley Place in the Southeast Community. The draft Transformation Plan will be submitted to the Department of Housing and Urban Development in late 2017, and will include an implementation plan and funding strategy. As part of its commitment to CNI, the City hired its first Neighborhood Revitalization Coordinator.

- The \$1.3 million Newport News Park Campsite office opened to rave reviews in August 2016. The new facility doubled the size of the previous office and offered a large camper store, public restrooms, laundry facilities and a self-service snack bar.
- As the project sponsor, the City received a \$342,000 grant from the Department of Defense, Office of Economic Adjustment to facilitate preparation of the Joint Base Langley-Eustis Joint Land Use Study (JLUS). The Department of Planning is administering the grant which funds an update to the Hampton-Langley JLUS and preparation of Fort Eustis JLUS. This collaborative study will identify compatible land uses and growth management near the installation.
- The City prepared a strategic design vision for Downtown Newport News to enliven the waterfront and create diverse opportunities for new places and spaces. “Downtown Reimagined” was unveiled in the fall of 2016. Initial project planning and programming has begun.
- The draft *One City, One Future Comprehensive Plan* was completed under the direction of the Citizen Advisory Committee and presented citywide for public feedback. Once updated, the plan will be submitted for state agency review and scheduled for public hearings in early 2018.
- The City secured State Revenue Sharing Program allocations totaling \$14.3 million. Major projects supported by these funds include Lower Jefferson Avenue Streetscape Improvements, Campbell Road Improvements, Hogan Drive Extension and Habersham Drive Improvements.
- The City secured Virginia SMART SCALE program funds totaling \$2.5 million for intersection improvements at Jefferson Avenue and Yorktown Road.
- The City was awarded Highway Safety Improvement Program Federal Grants totaling \$2.5 million for installation of new traffic signals at Jefferson Avenue at Pavilion Place and Rock Landing at Omni Boulevard, and installation of new flashing yellow left turn signals on Jefferson Avenue and Warwick Boulevard.
- The City was successful in obtaining \$782,000 of Bicycle & Pedestrian Safety Program Federal Grants to add sidewalks on both sides of Jefferson Avenue from Industrial Park Drive to Shields Road.

CITY OF NEWPORT NEWS, VIRGINIA

- Transportation Alternative Program funds of \$400,000 were approved for streetscape improvements on Washington Avenue from 30th Street to 34th Street. Improvements include lighting, sidewalks and handicap ramps.
- The City secured State of Good Repair funds totaling \$5.1 million for the Route 105 Bridge over the Newport News Reservoir replacement project. The bridge currently receives 45,374 average daily trips and is a direct route between Fort Eustis and I-64. This funding, when combined with the previously secured Federal and State funding of \$9.1 million, brings the total project funding to \$14.3 million. An additional \$7.2 million will be requested in future State Revenue Sharing programs to fully fund the \$21.5 million project.

Environmental Stewardship and Sustainability

- Through the efforts of scientists at William and Mary's Virginia Institute of Marine Science (VIMS), eight local communities, including Newport News, have received grant funds through the National Institute of Science and Technology to install water level sensors to help communities better manage coastal flooding. The goal is to better monitor, predict, and respond to coastal flooding. New monitoring stations in Newport News will provide more accurate information about potential flooding events that could impact City residents. Three sites have been selected in Newport News to place the sensors as a component of the Smart City Initiative. The technology will improve the City's preparation and response during significant weather events.
- The City was successful in obtaining \$367,183 in Stormwater Local Assistance Fund grant funding from the Virginia Department of Environmental Quality for the Lynchburg Drive Channel Improvements project. The new channel will provide improved flow of storm water runoff as well as flood control in the area. The area will become more aesthetically pleasing and flooding will be reduced. An additional benefit of the natural channel design is that the City can take credit for the reduction of pollutants such as sediment, nitrogen, and phosphorus entering the James River and ultimately the Chesapeake Bay.

Public Safety

- In April 2017, the Police Department contracted with PoliceOne Academy, an online service of video-based, case based courses that provide easy-to-access training for police officers. The service has nearly 1,100 videos for 200 courses. The service is certified and accepted in 37 states throughout the United States, including Virginia. By utilizing this service, officers are able to access training in their vehicles and complete the courses using their mobile tablets, reducing the time needed for them to be in formal classrooms. The Police One Academy application allows the Police Department to design training plans within the platform to manage, test, track and report on topics such as policy and legal updates, best practices, in-service training, line-up briefings, and mandated compliance training.

CITY OF NEWPORT NEWS, VIRGINIA

- A group of 40 police officers and sheriff's deputies were trained and outfitted to form a team that will respond to incidents of civil unrest/protests. Grant funds provided for the purchase of specialized uniforms and equipment. Each member was sent to 32 hours of Department of Homeland Security, Center for Domestic Preparedness training. Each officer is required to attend 8 additional hours per month of specialized training. Team members provide 8 hours of basic preparedness training for all members of the department.
- The Fire Department successfully completed the annual review process for the Fire Service Accreditation as required by the Center for Public Safety Excellence (CPSE). The department continues to focus on the response times to emergency calls to provide the best service possible to citizens and visitors. The Fire Department is also focusing on the pre-fire planning/Community Risk Reduction process for the community in preparation for the five year (CPSE) Accreditation team visit and re-accreditation which will be scheduled for August 2018. NNFD is one of 183 accredited fire departments in the world and one of 26 departments to be both accredited and to have an ISO1 Public Protection Classification rating.
- The Fire Department implemented a change in the design and construction of the fire department's medic units to now include a power lift system and power stretchers for lifting and loading patients on emergency medical calls. This technology will allow for a much safer patient loading process into the medic unit greatly reducing the possibility of a major back injury to an emergency provider.

Other Community and Citizen Services

- The City received funding of \$82,000 for the Safe Routes to School program for the 2017-2018 school year. This is a continuation of the program that began in 2015 and serves several elementary schools within the City, promoting a healthier lifestyle by encouraging students to walk or bike to school.
- The Department of Human Services (NNDHS) serves the neediest citizens and is best known for the administration of public welfare benefit programs, child protective services, foster care and adult protective services. According to the FY2016 Virginia Department of Social Services (VDSS data), NNDHS provided benefits in the form of Supplemental Nutrition Assistance (SNAP), Temporary Assistance for Needy Families (TANF) and Medicaid assistance to approximately 61,934 individuals. An additional 5,842 households received Energy Assistance and 1,216 families received Child Care Assistance. The total amount expended (Federal, State, and Local) on Social Services programs was \$329.3 million including approximately \$11.1 million contributed by the City. The majority of these funds, \$302 million, were provided to citizens in the form of benefits which are then returned to the community through the purchase of goods and services.
- During FY2017, the Department of Human Services was awarded funding through the Virginia Department of Social Services to host the 1st annual Post Adoption Services

CITY OF NEWPORT NEWS, VIRGINIA

Conference. Approximately 45 families and staff from Hampton Roads attended this event at the Newport News Marriott and Conference Center.

- Permanency status was achieved for forty-one (41) foster children during fiscal year 2017 in the form of adoption, reunification with their families, or custody transfer to other relatives.
- The Department of Human Services served 108 families during 2017 with \$402,498 Maternal, Infant, and Early Childhood Home Visitation (MIECHV) grant funds from the Virginia Department of Health. The MIECHV Grant funds improved early childhood systems of care, including access to prenatal appointments. During the past four years of the grant, a total of 327 families received at least one home visit.
- During FY2016, special assistance provided under the Children's Services Act (CSA) supported 264 children. CSA funds were used to purchase services for: placement of children in residential facilities, group homes, foster homes, independent living arrangements, and special education private day services. Some of the community-based services included sex offender treatment, before and after school care, in-home therapy and monitoring.
- The Department of Human Services contracted with Comprehensive Health Investment Project (CHIP) of Virginia in February 2017 to integrate health-related services by trained nurse professionals into our home visiting program. CHIP of Virginia is a non-profit organization responsible for increasing access to health care for low income children and their families across the state. As a result of this partnership, the Department will pair two Registered Nurses with our existing Parent Educators to deliver an array of comprehensive early childhood services to families enrolled in the program. CHIP of Newport News will reach a minimum of 80 families and approximately 100 children aged 0-6 years, annually.
- On April 13, 2017, Newport News held the first annual Project Homeless Connect (PHC). PHC supports the Peninsula's plan to end homelessness. It was a one-day, one-stop-shop event aimed at bringing necessary supportive services and resources to people who are homeless or are in jeopardy of becoming homeless. The Department of Human Services partnered with a variety of local and regional agencies and vendors to host this inaugural event, which served over 60 individuals. Next year's event is anticipated to be expanded beyond Newport News to incorporate other Peninsula agencies and their resources to serve all Peninsula residents.
- The City produced a wide variety of top quality special events in FY2017 including the 4th of July *Stars in the Sky*, *Children's Festival of Friends*, *Hollydazzle*, *Fridays by the Fountain*, *Celebration in Lights*, *One City One Celebration* and others. An estimated 510,000 people attended these special events.
- During FY2017, City recognized the 100th birthday of Newport News native and internationally known singer Ella Fitzgerald with a year-long Centennial Celebration that

CITY OF NEWPORT NEWS, VIRGINIA

included “pop-up” and scheduled performances, a traveling sculpture with “I Love Ella” letters and a large original mosaic mural.

- The Newport News Public Library System began offering Science, Technology, Engineering and Math (STEM) related activities to youth. All Newport News Public Libraries began offering access to 3D printers. Thanks to funding provided by an Office of Juvenile Justice and Delinquency Prevention (OJJDP) Grant through the Department of Human Services, the Pearl Bailey Library was able to provide hands on learning activities for youth that enabled them to create, design and complete innovative projects. A Mobile Maker Space provided a Safe Zone where youth learned to program various robotics kits using Arduino. Youth were also able to explore both sound and light circuitry through the use of Snap Circuits.

Awards

The City was recognized by the Department of Environmental Quality (DEQ) as a Virginia Environmental Excellence Program Sustainability Partner (VEEP SP) for calendar year 2017. The annual approval is in recognition of the numerous significant environmental achievements the City has made to date as well as sustainability goals set for the future. DEQ designed the VEEP SP track to encourage organizations across Virginia to make environmental sustainability part of their culture through leadership, innovation, and continual improvement. Newport News demonstrates this commitment through continual, measurable, and verifiable conservation efforts, leading to direct and indirect improvements in energy usage, water usage, waste generation, and other environmental benefits. The City has received this annual recognition of environmental excellence since 2013.

The City has been awarded platinum, the highest level, in the 2016 Green Government Challenge from the Virginia Municipal League (VML). The award was presented to the City at VML’s annual conference in 2017. VML’s challenge is designed to encourage implementation of specific environmental policies and practical actions that reduce the carbon emission generated by City operations and the broader community. The City was evaluated on 11 categories and 55 action items including energy efficiency, waste management, renewable energy, and innovative initiatives. The Challenge was first established in 2008, and the City has been recognized each year as a Green Government.

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, 2017. This was the 38th consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program’s requirements and we are submitting it to the GFOA to determine its eligibility for the City’s 39th consecutive certificate.

CITY OF NEWPORT NEWS, VIRGINIA


Acknowledgments

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

Respectfully submitted,



Cynthia D. Rohlf
City Manager



Susan M. Goodwin
Director of Finance

CITY OF NEWPORT NEWS, VIRGINIA

CITY GOVERNMENT OFFICIALS (at June 30, 2017)

City Council

McKinley L. Price, DDS Mayor
Tina L. Vick Vice Mayor
Herbert H. Bateman, Jr. Member
Saundra Nelson Cherry, D. Min. Member
Marcellus L. Harris III Member
Sharon P. Scott, MPA Member
Dr. Patricia P. Woodbury Member

Office of the City Manager

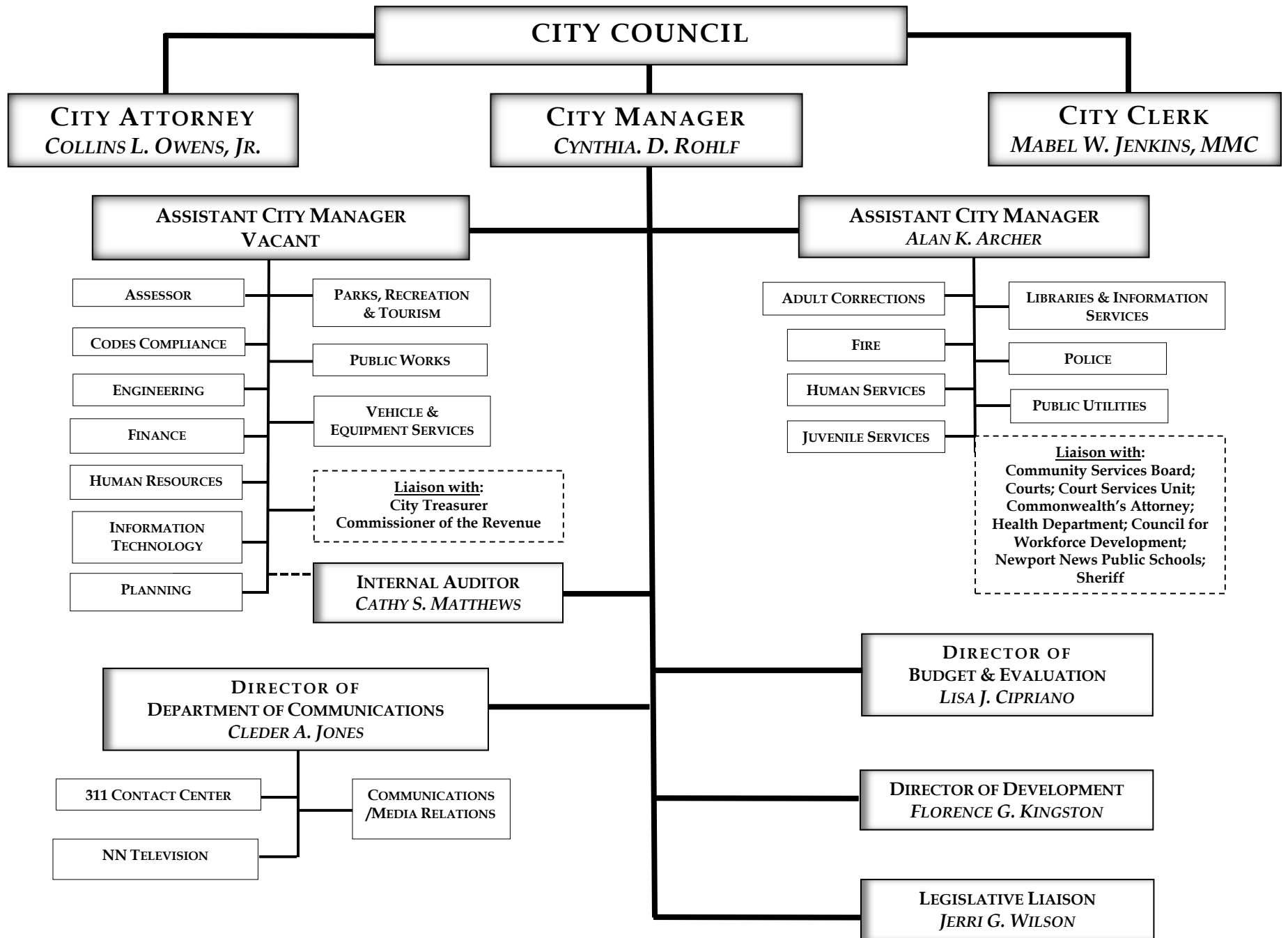
Cynthia D. Rohlf City Manager
Alan K. Archer Assistant City Manager

Department of Finance

Susan M. Goodwin Director of Finance
William R. Rose Controller
Chrystal Y. Rose Acting Accounting Manager

Other Officials

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





Government Finance Officers Association

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

Presented to

**City of Newport News
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

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Report of Independent Auditor

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newport News, Virginia (the "City"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Peninsula Airport Commission, which represents 25.78% of the respective assets, 2.07% of the respective revenues, and 60.50% of the respective net position of the aggregate discretely presented component units. Those financial statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as they relate to the amounts included for the Peninsula Airport Commission, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newport News, Virginia, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section, Supplementary Information, and Statistical Section, as listed within the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The Supplementary Information and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the Supplementary Information and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Richmond, Virginia
November 21, 2017

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, 2017 (FY 2017). This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which have the following components: (1) management's discussion and analysis (MD&A), (2) government-wide financial statements, (3) fund financial statements, and (4) notes to the financial statements.

FINANCIAL HIGHLIGHTS FOR FY 2017

At the end of the fiscal year, the City's governmental activities' assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$196.6 million. This amount represents a decrease of \$4.6 million or 2.3%, under prior year's ending balance of \$201.2 million.

General Fund

- At the close of FY 2017, unassigned fund balance for the General Fund was \$51.7 million or 11.23% of FY 2017 total General Fund revenues and transfers in.
- General Fund revenues and transfers increased \$10.6 million or 2.4% above FY 2016, due to an increase in general taxes, primarily real property taxes. Expenditures and transfers out increased \$7.5 million, 1.6% higher than the prior fiscal year. FY 2017 expenditures and transfers out were .8% less than budget.
- The City's real estate tax rate of \$1.22 per \$100 of assessed valuation remained unchanged for FY 2017. The tax rate on personal property of \$4.50 per \$100 of assessed valuation, also remained unchanged.

Governmental Activities

- Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at June 30, 2017, by \$196.6 million. Of this amount, \$19.7 million was restricted.
- The City's total bonded debt increased by approximately \$19.8 million during the current fiscal year. The net increase is due to the issuance of new debt which is offset by related principal payments.

CITY OF NEWPORT NEWS, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

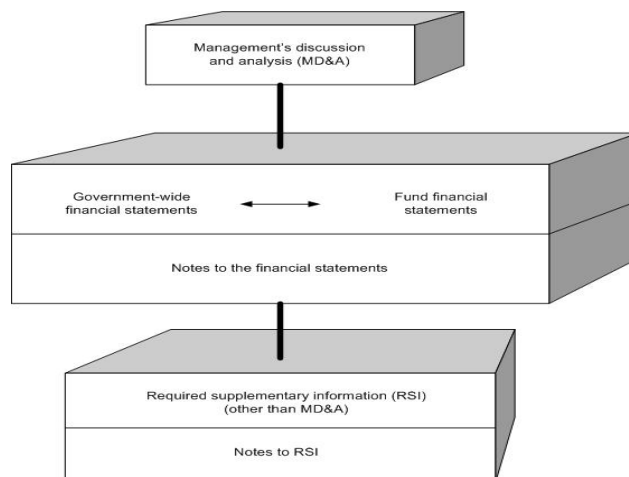
The City's basic financial statements comprise three components: *government-wide financial statements*, *fund financial statements*, and *notes to the financial statements*. This report also contains required other supplementary information sections in addition to the basic financial statements themselves.

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

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

Figure A

Required Components of Newport News' Financial Statements



CITY OF NEWPORT NEWS, VIRGINIA

MANAGEMENT’S DISCUSSION AND ANALYSIS

Government-Wide Statements

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

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

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

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

Fund Financial Statements

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

The City has three types of funds:

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

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

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

Notes to the Basic Financial Statements

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

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

Statement of Net Position

The following table reflects the condensed net position:

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 255.2	209.5	118.9	94.7	374.1	304.2
Capital assets, net	739.8	736.9	407.3	392.7	1,147.1	1,129.6
Total assets	<u>995.0</u>	<u>946.4</u>	<u>526.2</u>	<u>487.4</u>	<u>1,521.2</u>	<u>1,433.8</u>
Deferred contributions/experience	71.8	36.1	8.2	6.0	80.0	42.1
Debt refundings resulting in loss	11.6	13.9	3.0	3.5	14.6	17.4
Total Deferred outflows of resources	<u>83.4</u>	<u>50.0</u>	<u>11.2</u>	<u>9.5</u>	<u>94.6</u>	<u>59.5</u>
Current and other liabilities	114.1	108.0	44.4	56.9	158.5	164.9
Long-term liabilities	766.5	682.6	171.6	137.0	938.1	819.6
Total liabilities	<u>880.6</u>	<u>790.6</u>	<u>216.0</u>	<u>193.9</u>	<u>1,096.6</u>	<u>984.5</u>
Deferred pension gains	0.5	3.7	-	0.4	0.5	4.1
Property taxes collected in advance	0.7	0.9	-	-	0.7	0.9
Total Deferred inflows of resources	<u>1.2</u>	<u>4.6</u>	<u>-</u>	<u>0.4</u>	<u>1.2</u>	<u>5.0</u>
Net position:						
Net investments in capital assets	403.5	384.7	312.2	299.1	715.7	683.8
Restricted	19.7	19.3	-	-	19.7	19.3
Unrestricted (Deficit)	<u>(226.6)</u>	<u>(202.8)</u>	<u>9.2</u>	<u>3.5</u>	<u>(217.4)</u>	<u>(199.3)</u>
Total net position	<u>\$ 196.6</u>	<u>201.2</u>	<u>321.4</u>	<u>302.6</u>	<u>518.0</u>	<u>503.8</u>

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

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

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

Governmental Activities

Net position of the City's governmental activities decreased from \$201.2 million at June 30, 2016 to \$196.6 million at June 30, 2017 as a result of the excess of expenses over revenues for FY 2017 of \$4.6 million as shown on the Statement of Activities (Table 2 following).

Business-type Activities

The City's public utility (Waterworks) is an enterprise operation. The net position of Waterworks increased from \$302.6 million to \$321.4 million, as a result of excess revenues over expenses for FY 2017. The City uses the net position of the enterprise fund to finance the continuing operations of its Waterworks operation.

Statement of Activities

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

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 85.8	83.4	92.0	90.0	177.8	173.4
Operating grants and contributions	40.9	41.8	-	-	40.9	41.8
Capital grants and contributions	17.0	9.9	-	-	17.0	9.9
General revenues:	-	-				
Property taxes	261.2	256.8	-	-	261.2	256.8
Other taxes	103.9	102.1	-	-	103.9	102.1
Grants and contributions not restricted to specific programs	44.5	43.2	2.3	3.3	46.8	46.5
Investment earnings	3.1	2.7	0.5	0.3	3.6	3.0
Miscellaneous	12.4	9.7	1.1	0.9	13.5	10.6
Total revenues	<u>568.8</u>	<u>549.6</u>	<u>95.9</u>	<u>94.5</u>	<u>664.7</u>	<u>644.1</u>
Expenses:						
General government	110.2	105.3	-	-	110.2	105.3
Judicial administration	8.1	7.0	-	-	8.1	7.0
Public safety	129.0	117.2	-	-	129.0	117.2
Public works	85.6	77.8	-	-	85.6	77.8
Health and welfare	44.8	41.4	-	-	44.8	41.4
Education	138.9	121.8	-	-	138.9	121.8
Parks, recreation and culture	35.2	32.3	-	-	35.2	32.3
Community development	11.2	11.5	-	-	11.2	11.5
Public utility	-	-	67.6	69.0	67.6	69.0
Interest and other fiscal charges	19.9	20.5	-	-	19.9	20.5
Total expenses	<u>582.9</u>	<u>534.8</u>	<u>67.6</u>	<u>69.0</u>	<u>650.5</u>	<u>603.8</u>
Excess before transfers	(14.1)	14.8	28.3	25.5	14.2	40.3
Transfers	9.5	9.5	(9.5)	(9.5)	-	-
Change in net position	(4.6)	24.3	18.8	16.0	14.2	40.3
Beginning net position	201.2	176.9	302.6	286.6	503.8	463.5
Ending net position	<u>\$ 196.6</u>	<u>201.2</u>	<u>321.4</u>	<u>302.6</u>	<u>518.0</u>	<u>503.8</u>

CITY OF NEWPORT NEWS, VIRGINIA

MANAGEMENT’S DISCUSSION AND ANALYSIS

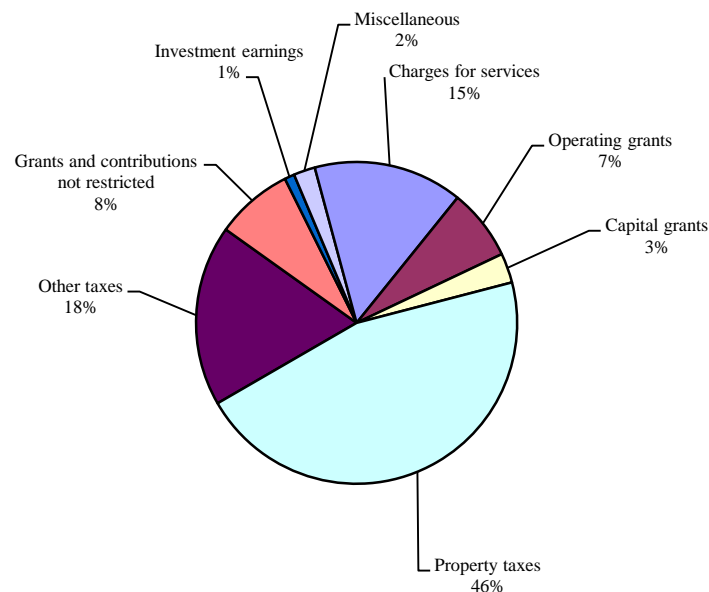
Governmental Activities

The City’s total revenues from governmental activities were \$568.8 million for the fiscal year ended June 30, 2017. The largest source of revenue (\$261.2 million for FY 2017) is real estate and personal property taxes. The City’s assessed real property tax base for FY 2017 increased 2.2%.

Approximately 64.2% of the City’s revenue from governmental activities comes from some type of tax and 15.1% comes from fees charged for services.

The City’s expenses cover a wide range of services, with 22.1%, or \$129.0 million, for FY 2017 related to public safety and 23.8%, or \$138.9 million, for FY 2017 for education (payments to the Schools component unit).

Revenues by Source – Governmental Activities



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

Business-type Activities

The net position for the City's business-type activities increased by \$18.8 million as a result of revenues exceeding the expenses of the operations. Charges for services make up 95.9% of total revenues for the City's business-type activities.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

General Fund

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the General Fund fund balance was \$91.8 million of which \$51.7 million represents an unassigned fund balance. As a measure of the General Fund's liquidity, it is useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 12.5% of the total fund expenditures (11.5% of total revenues), while total fund balance represents 22.2%.

Debt Service Fund

The Debt Service Fund has a fund balance of \$2.1 million. During FY 2017, the fund balance increased by \$0.2 million.

Bond Fund

The Bond Fund accounts for the proceeds of general obligation bond issues, except those of the Proprietary Funds. The Bond Fund fund balance increased from \$18.7 million at June 30, 2016 to \$55.6 million at June 30, 2017, due to new bond proceeds.

Proprietary Funds

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

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

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund (Budget Basis)
Fiscal Year 2017

	Original Budget	Final Budget	Actual (Budget Basis)
Revenues:			
Taxes	\$ 367,431,107	367,431,107	365,019,995
Intergovernmental	43,542,047	43,542,047	44,482,705
Other	56,317,911	56,317,911	50,932,618
Total	<u>467,291,065</u>	<u>467,291,065</u>	<u>460,435,318</u>
Expenditures and Transfers:			
Expenditures	417,105,673	417,105,673	416,010,270
Transfers out	50,185,392	50,185,392	47,321,355
Total	<u>467,291,065</u>	<u>467,291,065</u>	<u>463,331,625</u>
Change in fund balance	\$ <u>-</u>	<u>-</u>	<u>(2,896,307)</u>

Actual General Fund revenues and transfers from other funds were below the final budgeted revenues by \$6.9 million because of lower than expected tax revenue. Expenditures were under budget by \$1.1 million due to spending restraints put in place during the fiscal year and transfers out were under budget by \$2.9 due to a decrease in debt service and capital project transfers.

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, 2017, totaled \$1,147.1 million (net of depreciation). This investment includes land, buildings and improvements, drainage and water/sewer systems, machinery and equipment, roads, bridges, and construction in progress.

Construction in progress totaled \$66.3 million for governmental activities at the end of FY 2017 (including certain Public Schools projects under construction).

Construction in progress totaled \$33.5 million for business-type activities at the end of the fiscal year including the following projects: Upper York 24” Water Main, \$2.8 million; Lee Hall Dam improvements, \$18.0 million and Contract 96 – Beach Road, \$2.9 million.

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

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

	Governmental Activities		Business-type Activities		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 90,967,134	\$ 88,645,018	8,336,985	7,976,985	99,304,119	96,622,003
Construction in progress	66,266,305	82,887,814	33,470,744	37,642,073	99,737,049	120,529,887
Buildings	216,644,534	226,712,052	91,635,918	95,284,383	308,280,452	321,996,435
Water systems	-	-	256,999,612	235,664,445	256,999,612	235,664,445
Improvements	109,303,286	106,152,528	8,371,366	9,371,649	117,674,652	115,524,177
Machinery and equipment	50,870,740	47,397,498	8,468,164	6,732,604	59,338,904	54,130,102
Infrastructure	205,735,092	185,107,559	-	-	205,735,092	185,107,559
	<u>\$ 739,787,091</u>	<u>\$ 736,902,469</u>	<u>407,282,789</u>	<u>392,672,139</u>	<u>1,147,069,880</u>	<u>1,129,574,608</u>

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

Long-Term Debt

At the end of the current fiscal year, the City had total outstanding debt (including literary loans) of \$495.5 million, an increase of 7.2% from last year, as shown in the table below. Capital leases, landfill liability, accrued vacation, net pension obligations, other postemployment benefit obligations and claims payable are not included in these figures.

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

	Governmental Activities		Business-type Activities		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2015</u>
General obligation bonds	\$ 374.8	355.0	60.4	73.4	435.2	428.4
Literary loans	4.2	4.6	-	-	4.2	4.6
Revenue bonds	-	-	56.1	29.2	56.1	29.2
Total	<u>\$ 379.0</u>	<u>359.6</u>	<u>116.5</u>	<u>102.6</u>	<u>495.5</u>	<u>462.2</u>

The amount of the debt outstanding related to School Board activities is \$69.8 million of the total outstanding general obligation bonds of the governmental activities.

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

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The unemployment rate in June 2017 for the City was 4.9%, which is a decrease from the average for 2016 of 5.0%, and is consistent with other areas of the Commonwealth. The City's annual population decreased slightly from approximately 182,385 at the end of fiscal year 2016 to 181,825 at the end of fiscal year 2017 according to US Census estimates.

The FY 2018 approved revenue budget for the General Fund increased by 1.5% compared to the FY 2017 adopted budget. The FY 2018 budget includes allocations for 7,292 positions (including schools), a net decrease of 16 positions from the FY 2017 budget.

City management believes that the effect of the recession will continue to subside in FY2018, with strengthening signs of economic recovery and this will be reflected more consistently throughout the local economy. Strategic focus areas include providing the capital assets required to maintain City assets and operations in an environmentally friendly way, providing the funding to Schools for improvement in educational opportunities for students, promoting opportunities for economic development and job creation, and maintaining a motivated and service focused workforce.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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CITY OF NEWPORT NEWS, VIRGINIA
Statement of Net Position
June 30, 2017

Assets	Primary Government			Discretely presented component units	
	Governmental activities	Business-type activities	Total	Public schools	Others
Cash and cash equivalents	\$ 114,613,262	56,320,607	170,933,869	52,275,508	8,782,223
Restricted cash and investments	69,229,717	31,329,755	100,559,472	-	16,529,062
Accounts receivable, net	26,180,986	14,001,084	40,182,070	247,904	13,141,468
Receivable from Industrial Development Authority	10,155,757	-	10,155,757	-	-
Receivable from Primary Government	-	-	-	9,662,002	-
Receivables from other governments	26,266,282	-	26,266,282	11,019,145	-
Due from Pension Fund	67,763	-	67,763	-	-
Due from OPEB Fund	338,971	-	338,971	-	-
Inventory, at cost	2,023,975	3,447,417	5,471,392	1,564,490	63,407
Land held for lease or resale	-	7,102,444	7,102,444	-	29,471,249
Wetlands credits	-	5,530,135	5,530,135	-	-
Net pension asset	4,228,689	320,375	4,549,064	932,159	-
Capital assets:					
Nondepreciable capital assets:					
Land	90,967,134	8,336,985	99,304,119	2,896,704	6,604,658
Construction in progress	66,266,305	33,470,744	99,737,049	20,726,356	8,490,786
Depreciable capital assets:					
Buildings	346,241,628	152,155,622	498,397,250	66,190,087	201,593,974
Improvements	220,857,033	-	220,857,033	56,542,729	19,232,150
Water system	-	451,717,639	451,717,639	-	-
Airport assets	-	-	-	-	181,278,804
Machinery and equipment	168,973,338	38,596,537	207,569,875	66,591,468	6,604,145
Infrastructure	562,553,522	-	562,553,522	-	2,543,500
Total capital assets	1,455,858,960	684,277,527	2,140,136,487	212,947,344	426,348,017
Less accumulated depreciation	(716,071,869)	(276,994,738)	(993,066,607)	(115,030,099)	(154,556,894)
Capital assets, net	739,787,091	407,282,789	1,147,069,880	97,917,245	271,791,123
Restricted assets:					
Permanently restricted cash	2,081,243	-	2,081,243	-	-
Other assets	-	851,388	851,388	12,945,694	257,818
Total assets	994,973,736	526,185,994	1,521,159,730	186,564,147	340,036,350
Deferred Outflows of Resources					
Deferred pension experience loss	40,256,646	4,503,093	44,759,739	10,988,585	-
Deferred pension contributions	28,307,293	3,557,799	31,865,092	7,270,772	425,152
Deferred VRS experience loss	646,254	41,250	687,504	16,499,318	-
Deferred VRS contributions	2,601,871	166,077	2,767,948	21,237,507	-
Debt refundings resulting in loss transactions	11,563,700	2,965,729	14,529,429	-	5,577,422
Total deferred outflows	83,375,764	11,233,948	94,609,712	55,996,182	6,002,574
Liabilities					
Accounts payable	22,211,003	8,442,957	30,653,960	10,605,053	1,154,979
Accrued liabilities	15,606,433	5,360,960	20,967,393	30,622,761	557,516
Deposits	3,651,048	-	3,651,048	-	29,171
Unearned revenues	184,977	30,548,690	30,733,667	68,146	-
Payable to Newport News Public Schools	9,662,002	-	9,662,002	-	-
Payable to Primary Government	-	-	-	-	10,155,757
Long term liabilities:					
Due within one year	62,801,887	12,789,322	75,591,209	5,799,592	11,815,645
Due in more than one year	766,473,728	158,842,031	925,315,759	430,108,795	101,157,071
Total liabilities	880,591,078	215,983,960	1,096,575,038	477,204,347	124,870,139
Deferred Inflows of Resources					
Property taxes collected in advance	722,843	-	722,843	-	-
Deferred VRS investment gains	461,214	29,439	490,653	14,776,247	-
Deferred revenues	-	-	-	-	4,806
Deferred grant proceeds	-	-	-	3,303,639	-
Total deferred inflows	1,184,057	29,439	1,213,496	18,079,886	4,806
Net Position					
Net investment in capital assets	403,502,237	312,211,263	715,713,500	79,134,691	172,856,902
Restricted for:					
Capital projects	1,132,387	-	1,132,387	598,110	14,886,962
Debt service	2,081,243	-	2,081,243	-	1,565,628
Grants	1,962,207	-	1,962,207	-	-
Other governmental purposes	14,506,923	-	14,506,923	12,381,212	-
Unrestricted (deficit)	(226,610,632)	9,195,280	(217,415,352)	(344,837,917)	31,854,487
Total net position	\$ 196,574,365	321,406,543	517,980,908	(252,723,904)	221,163,979

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Statement of Activities
Year ended June 30, 2017

	Expenses	Program revenues			Net (expense) revenue and changes in net position				
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Primary Government Business-type activities	Total	Public schools	Other component units
Primary Government:									
Governmental activities:									
General government	\$ 110,180,530	13,326,077	-	16,980,158	(79,874,295)	-	(79,874,295)		
Judicial administration	8,150,550	2,277,375	445,786	-	(5,427,389)	-	(5,427,389)		
Public safety	128,952,047	6,133,044	3,250,749	-	(119,568,254)	-	(119,568,254)		
Public works	85,577,272	55,846,420	16,942,299	-	(12,788,553)	-	(12,788,553)		
Health and welfare	44,848,871	112,727	5,240,128	-	(39,496,016)	-	(39,496,016)		
Education	138,929,299	-	12,247,135	-	(126,682,164)	-	(126,682,164)		
Parks, recreation and culture	35,237,952	7,818,623	1,178,351	-	(26,240,978)	-	(26,240,978)		
Community development	11,180,081	286,184	1,629,213	-	(9,264,684)	-	(9,264,684)		
Interest and other fiscal charges	19,860,527	-	-	-	(19,860,527)	-	(19,860,527)		
Total governmental activities	582,917,129	85,800,450	40,933,661	16,980,158	(439,202,860)	-	(439,202,860)		
Business-type activities:									
Public utility	67,605,709	91,990,145	-	2,263,856	-	26,648,292	26,648,292		
Total business-type activities	67,605,709	91,990,145	-	2,263,856	-	26,648,292	26,648,292		
Total Primary Government	\$ 650,522,838	177,790,595	40,933,661	19,244,014	(439,202,860)	26,648,292	(412,554,568)		
Component units:									
Public Schools	\$ 340,798,513	6,828,501	69,051,155	1,931,173				(262,987,684)	-
Peninsula Airport Commission	15,272,772	7,757,651	-	8,921,056				-	1,405,935
Economic and Industrial Development Authorities	27,289,369	29,218,905	-	-				-	1,929,536
Total component units	\$ 383,360,654	43,805,057	69,051,155	10,852,229				(262,987,684)	3,335,471
General revenues:									
City Taxes:									
General property					261,245,586	-	261,245,586	-	-
E-911 service					722,114	-	722,114	-	-
Local sales and use					24,553,589	-	24,553,589	-	-
Consumers' utility					6,043,252	-	6,043,252	-	-
Consumption					904,868	-	904,868	-	-
Telecom sales and use					11,012,699	-	11,012,699	-	-
Business license					16,762,176	-	16,762,176	-	-
Rental car					1,144,248	-	1,144,248	-	-
Motor vehicle license					4,131,204	-	4,131,204	-	-
Bank stock taxes					1,012,668	-	1,012,668	-	-
Recordation and wills					1,598,418	-	1,598,418	-	-
Tobacco					4,925,919	-	4,925,919	-	-
Hotel and motel room tax					4,278,009	-	4,278,009	-	-
Restaurant food tax					25,757,894	-	25,757,894	-	-
Tourism zone tax					61,910	-	61,910	-	-
Amusement					980,953	-	980,953	-	-
Total City Taxes					365,135,507	-	365,135,507	-	-
Grants and contributions not restricted to specific programs					44,482,705	-	44,482,705	154,816,996	-
Payment from the City					-	-	-	117,586,726	-
Investment earnings					3,102,177	454,799	3,556,976	59,166	344,909
Miscellaneous					12,391,385	1,181,902	13,573,287	-	2,121,658
Transfers					9,500,000	(9,500,000)	-	-	-
Total general revenues and transfers					434,611,774	(7,863,299)	426,748,475	272,462,888	2,466,567
Change in net position					(4,591,086)	18,784,993	14,193,907	9,475,204	5,802,038
Net position beginning of year					201,165,451	302,621,550	503,787,001	(262,199,108)	215,361,941
Net position end of year	\$				196,574,365	321,406,543	517,980,908	(252,723,904)	221,163,979

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Balance Sheet
Governmental Funds
June 30, 2017

	General fund	Debt service fund	Bond fund	Nonmajor governmental funds	Total governmental funds
Assets					
Cash and cash equivalents	\$ 79,750,098	190,905	-	29,209,907	109,150,910
Restricted cash	-	-	68,542,689	687,028	69,229,717
Accounts receivable, net	22,126,139	-	-	3,919,247	26,045,386
Receivable from component unit	10,155,757	-	-	-	10,155,757
Receivable from other funds	943,591	-	-	5,475,408	6,418,999
Receivables from other governments	15,961,284	-	-	10,304,998	26,266,282
Due from Pension Fund	67,763	-	-	-	67,763
Due from OPEB Fund	338,971	-	-	-	338,971
Inventory, at cost	1,363,361	-	-	2,343	1,365,704
Restricted assets:					
Permanently restricted cash	-	2,081,243	-	-	2,081,243
Total assets	\$ 130,706,964	2,272,148	68,542,689	49,598,931	251,120,732
Liabilities					
Accounts payable	\$ 14,807,395	105,182	2,223,123	4,829,430	21,965,130
Accrued liabilities	7,542,260	70,500	1,030,005	1,195,749	9,838,514
Deposits	3,651,048	-	-	-	3,651,048
Unearned revenues	151,865	-	-	33,112	184,977
Payable to Newport News Public Schools	-	-	9,662,002	-	9,662,002
Payable to other funds	-	-	-	6,418,999	6,418,999
Total liabilities	26,152,568	175,682	12,915,130	12,477,290	51,720,670
Deferred Inflows of Resources					
Unavailable revenue-property taxes	11,998,288	-	-	-	11,998,288
Property taxes collected in advance	722,843	-	-	-	722,843
Unavailable revenue-stormwater fees	-	-	-	635,767	635,767
Total deferred inflows of resources	12,721,131	-	-	635,767	13,356,898
Fund Balances					
Nonspendable	11,519,118	-	-	-	11,519,118
Restricted	322,798	2,081,243	55,627,559	17,278,719	75,310,319
Committed	-	-	-	19,575,222	19,575,222
Assigned	28,279,733	15,223	-	-	28,294,956
Unassigned	51,711,616	-	-	(368,067)	51,343,549
Total fund balances	91,833,265	2,096,466	55,627,559	36,485,874	186,043,164
Total liabilities, deferred inflows of resources and fund balances	\$ 130,706,964	2,272,148	68,542,689	49,598,931	251,120,732

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA
Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Position
June 30, 2017

Fund balances – total governmental funds		\$ 186,043,164
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Net pension assets are not current financial resources and, therefore, are unavailable in the funds.		4,228,689
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Governmental capital assets	\$ 1,387,764,221	
Less accumulated depreciation	<u>(675,600,884)</u>	
		712,163,337
Other long-term assets are not available to pay for current period expenditures and, therefore, are unavailable in the funds.		12,634,055
Internal service funds are used by management to charge the costs of certain activities to individual funds.	33,101,508	
Adjustment to add back accrued vacation included below	275,589	
Adjustment to add back capital lease included below	<u>153,125</u>	
		33,530,222
Deferred charge on refunding are reported as deferred outflows of resources in the government-wide financial statements but are not reported in the governmental fund statements.		11,563,700
Deferred charge of current year employer contributions to the pension plans are reported as deferred outflows of resources in the government-wide financial statements and are not reported in the governmental fund statements.		30,909,164
Differences between expected and actual experience related to the pension plan that result in an experience loss are reported as deferred inflows of resources in the government-wide financial statements but are not reported in the governmental fund statements.		40,902,900
Unmatured interest payable reported in governmental activities will not be paid with current financial resources and, therefore, are not reported in the funds.		(5,664,037)
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	(411,719,410)	
Literary fund bonds	(4,198,821)	
Capital lease payable	(210,801)	
Land lease payable	(262,211)	
Landfill liability	(3,815,000)	
Accrued vacation	(18,017,488)	
Workers' compensation and other claims	(12,544,561)	
Net pension liability	(336,147,987)	
Net OPEB obligations	(36,957,071)	
Net line of duty obligations	(1,905,265)	
Incurred but not reported claims	<u>(3,497,000)</u>	
		(829,275,615)
Net difference between projected and actual earnings on pension plan investments that result in an investment gain are reported as deferred inflows of resources in the government-wide financial statements but are not reported in the governmental fund statements.		<u>(461,214)</u>
Net position of governmental activities		<u>\$ 196,574,365</u>

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
Year ended June 30, 2017

	General fund	Debt service fund	Bond fund	Nonmajor governmental funds	Total governmental funds
Revenues:					
General property taxes	\$ 261,130,074	-	-	-	261,130,074
Other local taxes	103,889,921	-	-	-	103,889,921
Licenses and permits	3,724,212	-	-	-	3,724,212
Fines and forfeitures	1,727,312	-	-	-	1,727,312
Intergovernmental	44,482,705	12,247,135	-	43,213,433	99,943,273
Charges for services	22,299,606	-	-	56,090,374	78,389,980
Interest and rent	2,718,789	-	-	346,455	3,065,244
Recovered costs	5,681,158	-	-	2,000	5,683,158
Miscellaneous	5,281,541	59,510	-	657,588	5,998,639
Total revenues	450,935,318	12,306,645	-	100,309,850	563,551,813
Expenditures:					
Current operating:					
General government	90,934,507	-	-	99,211	91,033,718
Judicial administration	6,731,392	-	-	493,596	7,224,988
Public safety	115,147,598	-	-	3,410,766	118,558,364
Public works	11,497,982	-	-	59,758,277	71,256,259
Health and welfare	35,573,386	-	-	7,147,990	42,721,376
Education	118,300,000	-	10,396,783	2,000,000	130,696,783
Parks, recreation and culture	27,602,672	-	-	2,444,563	30,047,235
Community development	8,064,767	-	-	1,829,713	9,894,480
Debt service:					
Principal	-	40,085,112	-	-	40,085,112
Interest and other charges	-	19,603,681	391,515	-	19,995,196
Capital outlay	-	-	19,501,428	25,576,904	45,078,332
Total expenditures	413,852,304	59,688,793	30,289,726	102,761,020	606,591,843
Excess (deficiency) of revenues over (under) expenditures	37,083,014	(47,382,148)	(30,289,726)	(2,451,170)	(43,040,030)
Other financing sources (uses):					
Transfers in	9,500,000	47,554,829	390,619	14,250,752	71,696,200
Transfers out	(49,321,355)	-	-	(12,874,845)	(62,196,200)
Premium on bonds	-	-	7,415,896	-	7,415,896
Bond and note issuance of debt	-	-	59,455,000	-	59,455,000
Total other financing sources (uses), net	(39,821,355)	47,554,829	67,261,515	1,375,907	76,370,896
Net changes in fund balances	(2,738,341)	172,681	36,971,789	(1,075,263)	33,330,866
Fund balances at June 30, 2016	94,571,606	1,923,785	18,655,770	37,561,137	152,712,298
Fund balances at June 30, 2017	\$ 91,833,265	2,096,466	55,627,559	36,485,874	186,043,164

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, 2017

Net change in fund balances – total governmental funds	\$ 33,330,866
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. The Statement of Activities also includes expenses that relate to assets acquired that do not meet the capitalization threshold of the City:	
Capital outlay expenditures	\$ 45,078,332
Plus: Capital expenditures not included in capital outlays, net of disposals	6,378,493
Less: Non-capitalized asset	(19,109,658)
Depreciation expense	<u>(28,375,508)</u>
	3,971,659
Newport News Public Schools, a component unit of the City, allows the City to record its construction in progress and certain capital assets on the City's financial statements for any projects using bond funds as a funding source. The City also records depreciation expense on these assets. These assets will revert back to the Schools when the debt is paid in full. These assets are not reported in the governmental funds.	(3,452,184)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. Unavailable revenues increased by this amount in the current year.	115,512
Change in pension asset valuation. These assets are not reported in the governmental funds.	(124,397)
Investment gains are recognized resulting from deferred inflows or outflows in the Statement of Activities, but are not reported as gains or losses in the funds.	3,255,398
Experience loss and change in proportion are recognized resulting from deferred inflows or outflow in the Statement of Activities, but are not reported as gains or losses in the funds.	35,811,847
Change in annual employer contributions to the pension funds. These activities are reported as deferred outflows in the Statement of Activities, but are not reported in the funds.	(102,948)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:	
Principal repayments	40,085,112
Debt issued (and related costs)	(59,455,000)
Premium on issuance of long-term debt	(2,911,563)
Amortization of refunding losses	<u>(2,332,376)</u>
	(24,613,827)
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	134,669
Capital leases payable	109,617
Landfill liability	289,000
Accrued vacation	1,248,224
Net pension obligation	(56,137,781)
Net OPEB obligation	(2,370,870)
Net line of duty obligation	(982,773)
Workers' compensation and other claims	1,224,168
Incurred but not reported liabilities	<u>(234,000)</u>
	(56,719,746)
Some capital additions were financed through capital leases in a prior year. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Position, the lease obligation is reported as a liability.	
Payments and write-offs on capital leases made in the current year	246,978
Internal service funds are used by management to charge the costs of certain services to individual funds. The net income of the internal service fund is reported with governmental activities (excludes change in compensated absences and capital leases).	<u>3,689,756</u>
Change in net position of governmental activities	<u>\$ (4,591,086)</u>

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA
Statement of Net Position
Proprietary Funds
June 30, 2017

Assets	Major Fund - Public Utility	Internal Service Fund
Current assets:		
Cash and cash equivalents	\$ 56,320,607	5,462,352
Restricted cash	31,329,755	—
Accounts receivable, net	14,001,084	135,600
Inventory	3,447,417	658,271
Prepaid bond principal	851,388	—
Total current assets	<u>105,950,251</u>	<u>6,256,223</u>
Noncurrent assets:		
Land held for resale	7,102,444	—
Wetlands credits	5,530,135	—
Capital assets:		
Nondepreciable capital assets:		
Land	8,336,985	20,257
Construction in progress	33,470,744	182,712
Depreciable capital assets:		
Buildings	152,155,622	3,469,775
Improvements	—	1,107,139
Water system	451,717,639	—
Machinery and equipment	38,596,537	63,314,856
Total capital assets	684,277,527	68,094,739
Less accumulated depreciation	(276,994,738)	(40,470,985)
Capital assets, net	<u>407,282,789</u>	<u>27,623,754</u>
Net pension asset	320,375	—
Total noncurrent assets	<u>420,235,743</u>	<u>27,623,754</u>
Total assets	<u>526,185,994</u>	<u>33,879,977</u>
Deferred Outflows of Resources		
Deferred pension experience loss	4,503,093	—
Deferred pension contributions	3,557,799	—
Deferred VRS experience loss	41,250	—
Deferred VRS contributions	166,077	—
Debt refundings resulting in loss transactions	2,965,729	—
Total deferred outflows	<u>11,233,948</u>	<u>—</u>
Liabilities		
Liabilities:		
Current liabilities:		
Accounts payable	8,442,957	245,873
Accrued liabilities	5,360,960	455,363
Unearned revenues	30,548,690	—
General obligation bonds payable, net	11,207,939	—
Revenue bonds payable, net	1,581,383	—
Total current liabilities	<u>57,141,929</u>	<u>701,236</u>
Noncurrent liabilities:		
Deposits	4,662,957	—
Lease payable	—	77,233
General obligation bonds payable, net	53,035,284	—
Revenue bonds payable, net	63,542,405	—
Net pension liability	37,601,385	—
Total noncurrent liabilities	<u>158,842,031</u>	<u>77,233</u>
Total liabilities	<u>215,983,960</u>	<u>778,469</u>
Deferred Inflows of Resources		
Deferred VRS investment gain	29,439	—
Total deferred inflows	<u>29,439</u>	<u>—</u>
Net Position		
Net position:		
Net investment in capital assets	312,211,263	27,623,754
Unrestricted	9,195,280	5,477,754
Total net position	<u>\$ 321,406,543</u>	<u>33,101,508</u>

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
Year ended June 30, 2017

	<u>Major Fund - Public Utility</u>	<u>Internal Service Fund</u>
Operating revenues:		
Water sales	\$ 59,838,097	-
Charges for services	25,445,099	13,219,067
Miscellaneous	6,706,949	290,879
Total operating revenues	<u>91,990,145</u>	<u>13,509,946</u>
Operating expenses:		
Personal services	25,572,730	3,303,116
Contractual services	6,913,548	130,158
Internal services	1,063,390	191,512
Materials and supplies	11,897,428	4,216,736
Depreciation	14,217,465	4,890,544
Other	2,333,868	-
Total operating expenses	<u>61,998,429</u>	<u>12,732,066</u>
Operating income	<u>29,991,716</u>	<u>777,880</u>
Nonoperating revenues (expenses):		
Interest revenue	454,799	36,933
Gain (loss) on disposal of capital assets	(984,229)	496,577
Amortization on bond premium	1,181,902	-
Loss on long-term debt	(332,781)	-
Interest expense	(4,290,270)	-
Total nonoperating expenses, net	<u>(3,970,579)</u>	<u>533,510</u>
Income before capital contributions and transfers out	<u>26,021,137</u>	<u>1,311,390</u>
Capital contributions for capital assets	2,263,856	2,453,251
Transfers out	(9,500,000)	-
Change in net position	18,784,993	3,764,641
Net position at June 30, 2016	<u>302,621,550</u>	<u>29,336,867</u>
Net position at June 30, 2017	<u>\$ 321,406,543</u>	<u>33,101,508</u>

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2017

	Major Fund - Public Utility	Internal Service Fund
Cash flows from operating activities:		
Receipts from customers	\$ 90,495,995	13,509,946
Payments to suppliers	(15,807,215)	(4,663,284)
Payments to employees	(24,911,112)	(3,303,116)
Other payments	<u>(2,333,868)</u>	<u>—</u>
Net cash provided by operating activities	<u>47,443,800</u>	<u>5,543,546</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(29,914,499)	(7,332,895)
Contributed capital	2,263,856	2,453,251
Proceeds from sale of capital assets	102,154	573,781
Premium on bonds issued	3,074,374	—
Repayment and retirement of long-term debt, net	(14,635,004)	—
Bond issuance cost	(340,792)	—
Proceeds from bond issue	27,930,000	—
Interest paid	<u>(3,949,478)</u>	<u>—</u>
Net cash used in capital and related financing activities	<u>(15,469,389)</u>	<u>(4,305,863)</u>
Cash flows used in noncapital financing activities -		
Transfer to other funds	<u>(9,500,000)</u>	<u>—</u>
Cash flows provided by investing activities -		
Interest received	<u>454,799</u>	<u>36,933</u>
Increase in cash and restricted cash	22,929,210	1,274,616
Cash, cash equivalents, and restricted cash at beginning of year	<u>64,721,152</u>	<u>4,187,736</u>
Cash, cash equivalents, and restricted cash at end of year	\$ <u><u>87,650,362</u></u>	\$ <u><u>5,462,352</u></u>
Reported as:		
Cash and cash equivalents	\$ 56,320,607	5,462,352
Restricted cash	<u>31,329,755</u>	<u>—</u>
Total cash, cash equivalents and restricted cash	\$ <u><u>87,650,362</u></u>	\$ <u><u>5,462,352</u></u>
Cash flows from operating activities:		
Operating income	\$ 29,991,716	777,880
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation	14,217,465	4,890,544
Change in:		
Accounts receivable	(554,516)	(10,429)
Inventories	132,287	(22,749)
Accounts payable, accrued liabilities, and leases payable	3,584,893	(91,700)
Unearned revenues	(939,635)	—
Deposits	838,481	—
Net pension asset	22,455	—
Net pension liability	2,749,222	—
Deferred outflow of resources	(2,188,952)	—
Deferred inflow of resources	<u>(409,616)</u>	<u>—</u>
Total adjustments	<u>17,452,084</u>	<u>4,765,666</u>
Net cash provided by operating activities	\$ <u><u>47,443,800</u></u>	\$ <u><u>5,543,546</u></u>

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2017

Assets	Pension, Other Postemployment Benefits, & Line of Duty Act Fund	Agency Funds
Cash and cash equivalents	\$ 8,293,460	5,987,718
Cash and cash equivalents with trustee	10,957,028	—
Investments:		
Debt securities	116,250,460	
Equity investments	652,792,221	
Private equities	30,161,085	—
Real estate and timber	114,947,855	—
Accounts receivable	—	4,867,044
Due from other components	87,619	—
Sales receivable	937,633	—
Claims Fluctuation Reserve (Anthem)	1,761,994	—
Total assets	\$ 936,189,355	10,854,762
Liabilities		
Accounts payable	\$ 1,804,140	1,400,739
Due to other governments	—	6,165,459
Due to other agencies	—	3,288,564
Due to City	406,734	—
Purchases payable	504,969	—
Total liabilities	2,715,843	10,854,762
Net Position		
Assets held in trust:		
Restricted for pensions benefits	930,965,015	
Restricted	2,508,497	
Total net position	\$ 933,473,512	

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Statement of Changes in Fiduciary Net Position

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

Year ended June 30, 2017

	Pension, Other Postemployment Benefits, & Line of Duty Act Fund
Additions:	
Employer Contributions:	
City General Fund	\$ 35,799,343
Waterworks Fund	4,562,049
School Operating Fund	7,270,772
Employee Contributions:	
City General Fund	4,455,244
Waterworks Fund	577,693
School Operating Fund	680,586
Other Contributions:	
Income from Leave Exchange	224,534
Employee Buy-back	49,794
Total contributions	<u>53,620,015</u>
Investment income:	
Net appreciation - bonds	2,281,817
Net appreciation - stocks	108,866,925
Interest	3,578,713
Dividends	5,872,638
Real estate operating loss, net	3,279,372
Commission recapture	62,261
Other investment income	47,773
Total investment gain	<u>123,989,499</u>
Less investment expenses:	
Other investment expenses	<u>(3,393,942)</u>
Net investment gain	<u>120,595,557</u>
Total additions	<u>174,215,572</u>
Deductions:	
Benefits paid to participants	85,278,164
Refunds of member contributions	88,790
Administrative expenses	1,020,187
Portability Expense	15,932
Total deductions	<u>86,403,073</u>
Change in net position	87,812,499
Net position held in trust for pension benefits at June 30, 2016	<u>845,661,013</u>
Net position held in trust for pension benefits at June 30, 2017	\$ <u><u>933,473,512</u></u>

See accompanying notes to basic financial statements.

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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies

(a) The Reporting Entity

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

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

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

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

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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

Major discretely presented unit

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

Nonmajor discretely presented units

- The Economic and Industrial Development Authorities (E/IDA or the Authorities) are two legally separate entities included in the City's financial statements due to financial/legal inter-dependency with the City. The E/IDA acquires, maintains and develops land for sale or lease, promotes both economic and industrial development and growth in the City, and includes the Parking Authority. The City Council approves the E/IDA's budget. Separate audited financial statements are available from E/IDA, at Department of Planning and Development, 2400 Washington Avenue, Newport News, Virginia 23607.
- The Peninsula Airport Commission (PAC) is a legally separate entity included in the City's financial statements. The PAC operates the Newport News/Williamsburg International Airport. The City appoints four of PAC's six commission members, thus holding a voting majority of the board. The City has a financial benefit/burden relationship with the PAC as described within GAAP. The PAC's governing body is not substantially the same as the City, nor does the PAC exclusively serve the City, or have its total debt outstanding repaid by the City. Separate audited financial statements are available from PAC at 900 Bland Boulevard, Newport News, Virginia 23602.

(b) Government-wide and Fund Financial Statements

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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

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

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

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

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

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

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

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In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the accrual criteria are met.

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

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

The City reports the following major governmental funds:

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

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

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

The City reports the following major proprietary fund:

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

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Additionally, the City reports the following fund types:

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

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

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

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

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

Nonmajor governmental funds:

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's public utility function and various other

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

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functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

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

(d) Cash and Cash Equivalents and Investments

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

Investments are stated at fair value, except for cash equivalents where cost approximates fair value. Retirement plan investments are reported at fair value. Plan

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

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

(e) *Receivables and Payables*

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

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

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

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

Real Estate – Each year as of July 1, the City levies real estate taxes on all real estate within its boundaries, except that exempted by statute. Real estate taxes are levied on the estimated market value of the property and become a lien on real property the first day of the levy year. The City follows the practice of reassessing all property annually. Real estate taxes are collected in semi-annual payments due December 5 and June 5. During the fiscal year, the current year real estate taxes reported as revenue are the levies on assessed valuation on July 1, less an allowance for uncollectible amounts and taxes not collected within 45 days after year-end. The tax rate for 2017 was \$1.22 per \$100 of assessed value.

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Personal Property – The City levies personal property taxes on motor vehicles and tangible personal business property. These levies are made each year as of January 1 with payment due the following December 5 and June 5. The current year personal property taxes reported as revenue are the levies on assessed valuation at January 1, less an allowance for uncollectible amounts and taxes not collected within 45 days after year-end. The 2017 tax rates per \$100 of assessed value were:

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

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

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

(f) Allowances for Uncollectibles

The City calculates allowances for uncollectibles using historical collection data, specific account analysis and management's judgment. The allowance at June 30, 2017, is composed of the following:

General Fund – Allowance for Uncollectibles

Taxes receivable:

Real Estate	\$	2,385,844
Personal Property		<u>3,337,162</u>
Total Taxes	\$	<u>5,723,006</u>

Non-Major Governmental –

Special Revenue Funds – accounts receivable	\$	2,082,077
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Public Utility Fund - accounts receivable	\$	1,758,884
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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

(g) Inventories

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

(h) Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental's or business-type's activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an initial useful life of more than 1 year. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition 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 \$294,112 was capitalized during fiscal year 2017.

Under Virginia law, certain property maintained by the School Board is subject to a "tenancy-in-common" with the City if the City incurred a financial obligation for the property payable over more than one fiscal year. The School Board and the City have agreed that such property will be carried on the City's financial statements until the outstanding debt is repaid. After repayment, the asset is transferred to the School Board. At June 30, 2017, the City holds capital assets related to school property with a net book value of approximately \$140,997,000.

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

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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

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(i) *Land Held for Resale*

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

(j) *Compensated Absences*

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

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

(k) *Long-term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities, or proprietary

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

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fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

(I) Fund Equity/Net Position

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

Under GAAP, fund balances are required to be reported according to the following classifications:

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

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

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

Assigned fund balance – Consists of amounts which the City intends to use for specific purposes, but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by City

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

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Council's delegation of this authority to the City Manager in the annual operating budget ordinance.

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

City Council has adopted a minimum fund balance policy which states that the General Fund's unassigned fund balance shall not be less than 7.5% of the actual General Fund revenues. For FY 2017, the General Fund's unassigned fund balance is 11.23% of revenues, exceeding the policy threshold of 7.5%.

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

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Notes to Basic Financial Statements
June 30, 2017

Details of the fund balance classifications of the Governmental funds at June 30, 2017 are as follows:

<u>Function/Purpose</u>	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Unassigned</u>
General fund:					
Inventories	\$ 1,363,361	-	-	-	-
Long-term note receivable	10,155,757	-	-	-	-
General government:					
Administration	-	-	-	2,357,401	-
Self insured activities	-	-	-	21,656,306	-
Projects	-	-	-	1,000,000	-
Judicial administration	-	-	-	6,036	-
Public safety	-	-	-	680,097	-
Public works	-	322,798	-	2,051,260	-
Health and welfare	-	-	-	36,994	-
Parks, recreation, and cultural	-	-	-	449,366	-
Community development	-	-	-	20,681	-
Imprest funds	-	-	-	21,592	-
Unassigned	-	-	-	-	51,711,616
Total General Fund	<u>\$ 11,519,118</u>	<u>322,798</u>	<u>-</u>	<u>28,279,733</u>	<u>51,711,616</u>
Other Funds:					
Debt Service:					
Future Debt Service	\$ -	2,081,243	-	15,223	-
Bond:					
Buildings	-	723,474	-	-	-
Community development	-	246,406	-	-	-
Environmental	-	131,865	-	-	-
Equipment	-	149,985	-	-	-
Parks, recreation, and cultural	-	310,121	-	-	-
Streets and bridges	-	4,829,185	-	-	-
Sanitary Sewer/Solid Waste	-	1,927,554	-	-	-
Stormwater	-	3,724,895	-	-	-
Transit	-	58,925	-	-	-
Future capital projects	-	43,525,149	-	-	-
Nonmajor Governmental:					
Economic Development	-	-	1,352,690	-	-
Law Library	-	25	185,308	-	-
Environmental	-	-	61,624	-	-
Criminal Justice Academy	-	-	133,895	-	-
Federal and State Grants	-	3,094,594	-	-	-
Community development	-	-	-	-	(14,295)
Equipment	-	-	904,668	-	-
Parks, recreation, and cultural	-	-	325,398	-	(353,772)
Buildings	-	-	834,788	-	-
Streets and bridges	-	-	2,689,825	-	-
Waste water	-	1,895,601	-	-	-
Solid waste	-	3,578,026	-	-	-
Stormwater	-	8,710,473	-	-	-
Transit	-	-	3,636	-	-
Future capital projects	-	-	13,083,390	-	-
Total Other Funds	<u>\$ -</u>	<u>74,987,521</u>	<u>19,575,222</u>	<u>15,223</u>	<u>(368,067)</u>
Total fund balance	<u>\$ 11,519,118</u>	<u>75,310,319</u>	<u>19,575,222</u>	<u>28,294,956</u>	<u>51,343,549</u>

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

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

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

	Governmental Activities
General activities:	
Public works	\$ 322,798
Other activities:	
Debt Service	2,081,243
Law Library	25
Grants	1,962,207
Capital Projects	1,132,387
Stormwater, Solid Waste, Wastewater	14,184,100
Total restricted net position	<u>\$ 19,682,760</u>

(m) Encumbrances

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

(n) Deferred Outflows and Inflows of Resources

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

CITY OF NEWPORT NEWS, VIRGINIA

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and premium of a refunding bond exceed the net carrying amount of the refunded debt, and employer contributions to the pension plans made after the measurement date. The deferred outflow is being amortized over the remaining life of the refunded debt.

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

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

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

In fiscal year 2017 the City adopted the provisions of Governmental Accounting Standards Board GASB Statement No. 77, *Tax Abatement Disclosures* (Statement No. 77). GASB 77 establishes accounting and financial reporting standards for tax abatements to provide financial statement users with enhanced transparency on transactions resulting in foregone tax revenue by the City in an effort to incentivize development or otherwise benefit the City and its citizens. The additional disclosures are located in footnote 15.

The GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in June 2015. This replaces GASB Statement 45 and requires the City to report the actuarial liability on the Statement of Net Position for the OPEB in addition to requiring more extensive note disclosures, and required supplementary information (RSI) about the OPEB liabilities. This statement will be implemented for June 30, 2018.

As a transition, however, the GASB issued Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* in June 2015. Statement 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The City issues a publicly available set of financial statements for the OPEB Plan, which includes the GASB 74 required disclosures and schedules. A copy of this report may be obtained from the Web at <http://www.nnva.gov/580/Retirement>. As a part this transition, see the City's RSI section for additional disclosures required this year.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

(2) Deposits and Investments

Deposits

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

To increase returns and minimize fees, the City follows the practice of pooling cash and investments of all funds held with the City Treasurer except for certain restricted funds requiring separate tracking or held by outside custodians. Cash and investments as of June 30, 2017 are classified in the accompanying financial statements, except for Pension and OPEB Funds' as follows:

	<u>Carrying amount</u>
Cash and deposits:	
Cash on hand	\$ 124,198
Deposits with banks	<u>81,452,080</u>
Total cash and deposits	81,576,277
Investments:	
Local Government Investment Pool (LGIP)	171,192,292
Deposits with banks – Money market accounts	201
Commonwealth cash reserve	3,501,370
Virginia State Non-Arbitrage Pool (VA SNAP)	99,902,709
Debt Service – QZAB Sinking Fund	2,081,243
Schools' escrow funds	250,000
Schools' – Facility Notes Capital Projects Fund	1,299,686
IDA escrow funds	<u>86,369</u>
Total deposits and investments	<u>\$ 359,890,148</u>

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

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Cash and investments as of June 30, 2017 are classified in the accompanying financial statements, except for Pension and OPEB Funds, as follows:

	<u>June 30, 2017</u>
Statements of net position:	
Primary Government:	
Cash and cash equivalents	\$ 170,933,869
Restricted cash	100,559,472
Permanently restricted cash	2,081,243
Component Units:	
Cash and cash equivalents	61,057,731
Restricted cash	16,529,602
Fiduciary Funds:	
Cash and cash equivalents – Line of Duty Act Fund	2,741,053
Cash and cash equivalents – Agency Funds	<u>5,987,718</u>
Total cash and investments	<u><u>\$ 359,890,148</u></u>

Investment Policy

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

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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

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, 2017, 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, 2017, were fully insured or collateralized by securities held in the name of the City by the City's custodial banks.

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

Credit Risk of Debt Securities of Primary Government: The City's rated debt investments as of June 30, 2017, were rated by Standard & Poors and Moody. The ratings are presented below using the Standard & Poors rating scale. The School Board, E/IDA and PAC, component units, are pooled with the City and not separately identified.

<u>Assets held by the Treasurer</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity (Years)</u>
LGIP	\$ 171,192,292	AAAm	0.11
Commonwealth Cash Reserve (AIM) – Underlying:			
U.S. Agencies	436,407	AA-	0.99
U.S. Agencies	100,039	AA	0.69
U.S. Agencies	2,743,115	AA+	2.17
Supranational Bonds	199,833	AAA	0.71
Money Market	21,976	AAAm	0.00
SNAP	<u>99,902,709</u>	AAAm	0.11
Total Investments	<u>\$ 274,596,371</u>		

CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2017

Fair Value Hierarchy

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

The following is a summary of the fair value hierarchy of the fair value of investments of City as of June 30, 2017.

		<u>Fair Value Measurements Using</u>	
		Quoted Prices in Active Markets for Identical Assets	Quoted Prices in Active Markets for Identical Assets
Investments by fair value level	<u>6/30/2017</u>	<u>(Level 1)</u>	<u>(Level 2)</u>
Time deposits	\$ 199,944	\$ 199,944	\$ -
U.S. Government agencies	1,368,996	-	1,368,996
U.S. treasury securities	1,235,010	-	1,235,010
U.S. corporate bonds	451,434	-	451,434
Supranational bonds	199,833	-	199,833
Money market funds	21,976	21,976	-
Collateralized mortgage obligation	24,177	-	24,177
Total at fair value	<u>\$ 3,501,370</u>	<u>\$ 221,920</u>	<u>\$ 3,279,450</u>
Investments at amortized cost			
LGIP	171,192,292		
SNAP	<u>99,902,709</u>		
Total at amortized cost	<u>271,095,001</u>		
Total	<u>\$ 274,596,371</u>		

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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

Deposits of Pension and Other Postemployment Benefits Funds

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

	<u>Carrying amount</u>
Cash and deposits:	
Deposits with banks	\$ 1,713,288
Deposits with banks – repurchase agreements	3,839,119
Pension trust fund money markets	<u>10,957,028</u>
Total cash and deposits	<u>\$ 16,509,435</u>
Investments:	
Debt securities	\$116,250,460
Equity investments	652,792,221
Private equities	30,161,085
Pension fund real estate funds	<u>114,947,855</u>
Total investments	<u>\$914,151,621</u>
Total deposits and investments	<u>\$930,661,056</u>

The Pension and OPEB funds' cash and investment as of June 30, 2017, are classified in the accompanying financial statements as follows:

	<u>June 30, 2017</u>
Cash and cash equivalents	\$ 5,552,407
Cash and cash equivalents with trustee	10,957,028
Investments:	
Debt securities	116,250,460
Equity investments	652,792,221
Private equities	30,161,085
Real estate	<u>114,947,855</u>
Total deposits and investments	<u>\$930,661,056</u>

Fair Value Hierarchy

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

CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2017

The Plan has the following recurring fair value measurements as of June 30, 2017:

Investments and Derivative Instruments measured at Fair Value - Pension

		Fair Value Measurements Using		
	Fair Value at 6/30/2017	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments by fair value level				
Debt securities:				
Asset backed securities	\$ 12,649,388	\$ -	\$ 12,649,388	\$ -
Collateralized mortgage obligation	5,929,023	-	5,929,023	-
Corporate bonds	56,478,438	-	56,478,438	-
Government agencies	3,804,454	-	3,804,454	-
Mortgage pass-through	17,538,662	-	17,538,662	-
U.S. treasury securities	19,850,495	-	19,850,495	-
Total debt securities	116,250,460	-	116,250,460	-
Equity securities:				
Consumer goods	53,764,122	53,764,122	-	-
Energy	10,829,106	10,829,106	-	-
Financials	36,160,809	36,160,809	-	-
Health care	23,008,976	23,008,976	-	-
Industrials	37,302,445	37,302,445	-	-
Information technology	36,476,802	36,476,802	-	-
Materials	9,436,589	9,436,589	-	-
Mutual funds	1,108,463	1,108,463	-	-
Other	-	-	-	-
Real estate investment trusts	6,798,956	6,798,956	-	-
Telecommunication services	3,342,151	3,342,151	-	-
Utilities	5,429,057	5,429,057	-	-
Total equity securities	223,657,476	223,657,476	-	-
Total investments at fair value level	\$ 339,907,936	\$ 223,657,476	\$ 116,250,460	\$ -
Investments measured at the net asset value (NAV)				
Equity investments:				
Co-mingled international equity fund	\$ 288,162,270			
Co-mingled small cap equity fund	111,516,823			
Total equity investments	399,679,093			
Private equity - private equity partnerships	30,161,085			
Real assets:				
Real estate	39,953,705			
Timber	74,994,150			
Total real assets	114,947,855			
Total investments measured at the NAV	544,788,033			
Total investments measured at fair value	884,695,969			
Cash equivalents and short term investments at the amortized cost				
U.S. Treasury Money Market	10,766,987			
Total investments measured at amortized costs	10,766,987			
Total investments	\$ 895,462,956			

CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2017

Investments and Derivative Instruments measured at Fair Value - OPEB

	Fair Value Measurements Using			
	Fair Value at 6/30/2017	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments by fair value level				
Equity securities:				
Consumer goods	\$ 2,865,403	\$ 2,865,403	\$ -	\$ -
Energy	567,245	567,245	-	-
Financials	2,241,723	2,241,723	-	-
Health care	1,567,730	1,567,730	-	-
Industrials	874,813	874,813	-	-
Information technology	1,905,515	1,905,515	-	-
Materials	262,776	262,776	-	-
Mutual funds	18,635,507	18,635,507	-	-
Telecommunication services	226,952	226,952	-	-
Utilities	307,988	307,988	-	-
Total equity securities	29,455,652	29,455,652	-	-
Total investments at fair value	\$ 29,455,652	\$ 29,455,652	\$ -	\$ -
Cash equivalents and short term investments measured at amortized cost				
U.S. Treasury Money Market	\$ 190,041			
Total investments measured at amortized cost	190,041			
Total investments	\$ 29,645,693			

Debt and equity securities classified as Level 1 fair value are valued using prices quoted in active markets for those securities. Debt securities classified as Level 2 fair value are valued using a matrix pricing technique.

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

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CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2017

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

Investments measured at the NAV - Pension

	Fair Value at 6/30/2017	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equity investments:				
Co-mingled international equity fund ⁽¹⁾	\$ 288,162,270	\$ -	Daily, Monthly	3-30 days
Co-mingled small cap equity fund ⁽¹⁾	111,516,823	-	Daily, Monthly	3-30 days
Total equity investments	399,679,093	-		
Private equity - private equity partnerships ⁽²⁾	30,161,085	29,037,025	Not eligible	N/A
Real assets:				
Real estate ⁽³⁾	39,953,705	-	Quarterly	3 months
Timber ⁽³⁾	74,994,150	-	Quarterly	N/A
Total real assets	114,947,855	-		
Total investments measured at the NAV	<u>\$ 544,788,033</u>	<u>\$ 29,037,025</u>		

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

Investment Policy of the Pension Fund

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

CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2017

Credit Risk of Pension Funds

The policy for the Fund as a strict control on credit quality by requiring that only bonds with a credit rating of less than A but no less than BB, may be considered for investments by the Fund's investment managers. The credit risk profile for the Pension Funds' securities by investment type as of June 30, 2017, is as follows:

<u>Investment Types</u>	<u>S & P's Ratings as of June 30, 2017</u>							
	<u>TOTAL</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>B</u>	<u>C</u>	<u>Not Rated</u>
Asset-backed	\$ 12,649,389	\$ 5,861,789	\$ 807,520	\$ -	\$ -	\$ -	\$ -	\$ 5,980,080
Corporate Bonds	56,478,437	476,178	6,068,406	37,053,699	12,880,154	-	-	-
Foreign Currency	90,992,943	-	-	-	-	-	-	90,992,943
Ltd Partner Units	30,161,085	-	-	-	-	-	-	30,161,085
Mortgage-backed	23,467,685	2,177,853	9,695,385	-	176,301	-	-	11,418,146
Mutual Funds	308,686,150	-	-	-	-	-	-	308,686,150
Real Estate	39,953,705	-	-	-	-	-	-	39,953,705
Short-term	10,766,987	-	-	-	-	-	-	10,766,987
Timber	74,994,150	-	-	-	-	-	-	74,994,150
U.S. Agencies	3,804,454	-	3,594,051	-	-	-	-	210,403
U.S. Treasury	19,850,495	-	-	-	-	-	-	19,850,495
Non-fixed Assets	223,657,476	-	-	38,778,509	-	125,336,214	5,700,440	53,842,313
Total	<u>\$ 895,462,956</u>	<u>\$ 8,515,820</u>	<u>\$ 20,165,362</u>	<u>\$ 75,832,208</u>	<u>\$ 13,056,455</u>	<u>\$ 125,336,214</u>	<u>\$ 5,700,440</u>	<u>\$ 646,856,457</u>

Concentration of Credit Risk – Pension Fund

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

Custodial Risk – Pension and OPEB Funds

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

Foreign Currency Risk – Pension and OPEB Funds

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

Interest Risk – Pension Fund

The Plan's investment policy does not address investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investment policy defines the investment objectives for both the passive and actively managed segments of the fixed income

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

portfolio. The objective of the passive segment is to replicate the return of the Barclays Aggregate Bond Index, thus providing broad diversification that would be impractical to achieve in an actively managed portfolio. The objective of the actively managed fixed income portfolio is to outperform the Barclays Aggregate Bond Index over a moving 3-5 year range, with the exception of long-duration fixed income, which has an objective of outperforming the Barclays Capital Long Government/Credit Index over a moving 3-5 year range. The fair value of the Plan's fixed income portfolio consisted of the following investment and maturities as of June 30, 2017:

Investment Type	Fair Value	<5 years	5-10	15-20	>20 years
US Government	\$ 32,399,773	\$ 32,399,773	\$ -	\$ -	\$ -
Corporate Bonds	57,771,256	57,594,958	176,298	-	-
Mortgage	26,079,431	25,966,737	-	-	112,694
Total	<u>\$ 116,250,460</u>	<u>\$ 115,961,468</u>	<u>\$ 176,298</u>	<u>\$ -</u>	<u>\$ 112,694</u>

(3) Accounts Receivable

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

	Governmental activities	Business-type activities
Taxes receivable:		
Real Estate	\$ 9,010,129	-
Personal Property	6,165,777	-
Total taxes receivable, net	15,175,906	-
Accounts receivable	11,005,080	14,001,084
Total receivables, net	<u>\$ 26,180,986</u>	<u>14,001,084</u>

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Notes to Basic Financial Statements

June 30, 2017

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

	<u>General</u>	<u>Public Utility</u>	<u>Fiduciary Funds</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:					
Taxes	\$ 20,898,912	-	-	-	20,898,912
Accounts	6,950,233	15,759,968	4,867,044	6,001,324	33,578,569
Intergovernmental:					
Federal	2,060,764	-	-	3,787,309	5,848,073
State	13,900,520	-	-	6,517,689	20,418,209
Gross receivables	43,810,429	15,759,968	4,867,044	16,306,322	80,743,763
Less allowance for doubtful accounts	(5,723,006)	(1,758,884)	-	(2,082,077)	(9,563,967)
Net total receivables	\$ 38,087,423	14,001,084	4,867,044	14,224,245	71,179,796

In the governmental fund, unavailable revenues consist of revenues that are measurable but not available for use during the current period. Property taxes receivable at June 30 but not collected within 45 days after that date are reported as deferred inflows of resources in the financial statements. At the end of the current fiscal year, unavailable revenue of \$0.6 million was reported in the governmental nonmajor funds related to stormwater fees. The General Fund had unavailable revenues of \$12.0 million related to property taxes.

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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

(4) Capital Assets, Net

Capital asset activity for the year ended June 30, 2017 was as follows:

Primary Government

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 88,645,018	2,342,786	20,670	90,967,134
Construction in progress	82,887,814	32,018,587	48,640,096	66,266,305
Total capital assets, not being depreciated	171,532,832	34,361,373	48,660,766	157,233,439
Capital assets, being depreciated:				
Buildings	353,761,532	1,415,815	8,935,719	346,241,628
Improvements	211,320,767	10,291,483	755,217	220,857,033
Machinery and equipment	159,818,062	13,941,008	4,785,732	168,973,338
Infrastructure	532,012,039	30,541,483	-	562,553,522
Total capital assets being depreciated	1,256,912,400	56,189,789	14,476,668	1,298,625,521
Less accumulated depreciation for:				
Buildings	127,049,480	6,636,153	4,088,539	129,597,094
Improvements	105,168,239	6,612,075	226,567	111,553,747
Machinery and equipment	112,420,564	10,103,874	4,421,840	118,102,598
Infrastructure	346,904,480	9,913,950	-	356,818,430
Total accumulated depreciation	691,542,763	33,266,052	8,736,946	716,071,869
Total capital assets being depreciated, net	565,369,637	22,923,737	5,739,722	582,553,652
Capital assets, net	\$ 736,902,469	57,285,110	54,400,488	739,787,091

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

General Government	\$ 2,161,258
Judicial Administration	594,463
Public Safety	4,960,535
Public Works	11,055,568
Health and Welfare	169,712
Education	4,780,332
Parks, Recreation and Culture	3,813,749
Community Development	832,169
Non-departmental	7,722
Internal Service Fund	4,890,544
	<u>\$ 33,266,052</u>

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

Construction in progress for the City at June 30, 2017 is composed of the following project authorizations and contract commitments (in millions):

	Project Authorization	Expended as of June 30, 2017	Balance of Authorization	Contract Commitments (Encumbrances)
General Government	\$ 0.1	0.0	0.1	-
Health & Welfare	1.1	1.1	-	0.1
Public Safety	0.5	0.5	-	0.1
Public Works	139.4	31.4	107.9	26.1
Parks and Recreation	3.5	1.3	2.2	0.4
Economic Development	9.7	2.6	7.1	0.3
and Urban Renewal				
Public Schools	17.6	6.2	11.4	9.7
Totals	<u>\$ 171.9</u>	<u>43.2</u>	<u>128.7</u>	<u>36.6</u>

Business-type Activities:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Public Utility:				
Capital assets, not being depreciated:				
Land	\$ 7,976,985	370,000	10,000	8,336,985
Construction in progress	37,642,073	24,263,411	28,434,740	33,470,744
Total capital assets, not being depreciated	<u>45,619,058</u>	<u>24,633,411</u>	<u>28,444,740</u>	<u>41,807,729</u>
Capital assets, being depreciated:				
Buildings	152,155,622	-	-	152,155,622
Improvements	424,137,359	28,117,030	536,750	451,717,639
Machinery and equipment	34,960,887	4,771,617	1,135,967	38,596,537
Total capital assets being depreciated	<u>611,253,868</u>	<u>32,888,647</u>	<u>1,672,717</u>	<u>642,469,798</u>
Less accumulated depreciation for:				
Buildings	56,871,239	3,648,465	-	60,519,704
Improvements	179,101,265	7,533,189	287,793	186,346,661
Machinery and equipment	28,228,283	3,035,811	1,135,721	30,128,373
Total accumulated depreciation	<u>264,200,787</u>	<u>14,217,465</u>	<u>1,423,514</u>	<u>276,994,738</u>
Total capital assets being depreciated, net	<u>347,053,081</u>	<u>18,671,182</u>	<u>249,203</u>	<u>365,475,060</u>
Capital assets, net	<u>\$ 392,672,139</u>	<u>43,304,593</u>	<u>28,693,943</u>	<u>407,282,789</u>

CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2017

Discretely Presented Component Units

	Balance			Adjustment	Balance
	July 1, 2016	Increases	Decreases	Assets Held Tenancy In-Common	June 30, 2017
Public Schools:					
Capital assets, not being depreciated:					
Land	\$ 2,896,704	-	-	-	2,896,704
Construction in progress	14,184,064	6,542,292	-	-	20,726,356
Total capital assets, not being depreciated	17,080,768	6,542,292	-	-	23,623,060
Capital assets, being depreciated:					
Buildings	59,385,962	234,315	2,365,909	8,935,719	66,190,087
Improvements	56,187,459	124,396	524,343	755,217	56,542,729
Machinery and equipment	66,038,386	5,427,112	4,874,030	-	66,591,468
Total capital assets being depreciated	181,611,807	5,785,823	7,764,282	9,690,936	189,324,284
Less accumulated depreciation for:					
Buildings	38,808,221	872,823	1,275,605	4,088,539	42,493,978
Improvements	24,416,847	1,831,191	309,715	226,567	26,164,890
Machinery and equipment	47,201,086	4,023,723	4,853,578	-	46,371,231
Total accumulated depreciation	110,426,154	6,727,737	6,438,898	4,315,106	115,030,099
Total capital assets being depreciated, net	71,185,653	(941,914)	1,325,384	5,375,830	74,294,185
Capital assets, net	\$ 88,266,421	5,600,378	1,325,384	5,375,830	97,917,245

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

Depreciation expense of \$6,727,737 was charged to the Public School's governmental functions.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

(5) Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2017, is as follows:

Receivables/payables between other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Gov. Fund: Comp. Services Act	\$278,604
General Fund	Nonmajor Gov. Fund: CDBG	138,032
General Fund	Nonmajor Gov. Fund: Animal Shelter	185,603
General Fund	Nonmajor Gov. Fund: Police Grants	225,212
General Fund	Nonmajor Gov. Fund: Misc. Grants	116,140
Nonmajor Gov. Fund: Gen. Cap. Imp. Fund	Nonmajor Gov. Fund: Special Events	60,765
Nonmajor Gov. Fund: Gen. Cap. Imp. Fund	Nonmajor Gov. Fund: Capital Project Grants	5,414,643

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

Due to/from external parties:

<u>Due from external party</u>	<u>Due to external party</u>	<u>Amount</u>
General Fund	Pension Fund	\$67,763
General Fund	OPEB Fund	338,971

Receivables/payables between Primary Government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
City	Industrial Development Authority	\$10,155,757
Newport News Public Schools	City	9,662,002

The IDA Payable of \$10,155,757 represents the outstanding balance of the City's financing of the construction of the Applied Research Center (ARC). The repayment of this debt includes interest at 2.79%. The payment is in annual principal and interest payments representing the net revenues of the ARC after operating expenses, building reserves and short-term debt repayment.

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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

Individual fund interfund transfers for the Primary Government are as follows:

	Transfers to:					
	General Fund	Debt Service	Bond Fund	Nonmajor Governmental Capital Projects	Nonmajor Governmental Special Revenue	Total
Transfers from:						
General Fund	\$ -	35,070,603	-	11,082,255	3,168,497	49,321,355
Nonmajor Gov. - Capital Projects	-	-	390,619	-	-	390,619
Nonmajor Gov. - Special Revenue	-	12,484,226	-	-	-	12,484,226
Public Utility	9,500,000	-	-	-	-	9,500,000
	<u>\$ 9,500,000</u>	<u>47,554,829</u>	<u>390,619</u>	<u>11,082,255</u>	<u>3,168,497</u>	<u>71,696,200</u>

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

(6) Lease Agreements

(a) Land Lease Payments – Primary Government

Land: The City has a lease agreement with Mariner’s Museum through 2018 to finance the acquisition of a parcel of land. The lease is accounted for as a capital lease and recorded at the present value of the future minimum lease payments at the date of inception. The cost of the land is \$3,150,000 and is included in capital assets. The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2017 were as follows:

Year ending June 30:

2018	\$ 270,811
Less Interest	8,600
Present Value	<u>\$ 262,211</u>

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

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

The School Board has four lease agreements at June 30, 2017 for financing the acquisition of property and equipment.

The net book value of assets acquired through the four capital leases as of June 30, 2017 is as follows:

Machinery and equipment	\$ 2,184,023
Less accumulated depreciation	<u>(1,430,818)</u>
Assets acquired through capital leases, net	<u><u>\$ 753,205</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2017, were as follows:

Years ending June 30:

2018	\$ 294,938
2019	255,328
2020	143,187
2021	105,807
2022	<u>145,525</u>
Total minimum lease payments	\$ 944,785
Less amounts representing interest	<u>(71,799)</u>
Present value of minimum capital lease payments	<u><u>\$ 872,986</u></u>

(c) Operating Lease Payments – Component Units

The School Board had three ongoing leased buildings in 2017. Part of the leased space expires on June 30, 2028 and the other leased space in that same building expires on June 30, 2030. One other lease expires on December 31, 2017 but the School Board intends to renew for 3.5 years to June 2021. The School Board also leased space for high school graduation ceremonies on a year-to-year basis. Total costs for such leases were approximately \$811,600 for the year ended June 30, 2017.

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

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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

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

	<u>Schools</u>	<u>E/IDA</u>	<u>PAC</u>
Years ending June 30:			
2018	\$ 741,652	1,022,657	8,192
2019	700,550	1,024,641	-
2020	658,673	1,026,679	-
2021	663,606	1,028,772	
2022	707,751	949,825	
2023-2027	3,617,819	3,715,833	-
2028-2030	1,328,600	-	-
	<u>\$ 8,418,651</u>	<u>8,768,407</u>	<u>8,192</u>

(7) Long-Term Liabilities

- (a) A summary of changes in long-term liabilities for governmental activities for the year ended June 30, 2017 is as follows:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2017</u>	<u>Due within one year</u>
Bonds payable:					
General obligation bonds	\$ 355,023,479	59,455,000	(39,665,345)	374,813,134	33,396,424
Deferred amounts:					
Add bonds premiums	33,994,713	7,415,896	(4,504,333)	36,906,276	4,803,022
Total bonds payable	<u>389,018,192</u>	<u>66,870,896</u>	<u>(44,169,678)</u>	<u>411,719,410</u>	<u>38,199,446</u>
Literary loan bonds	4,618,588	—	(419,767)	4,198,821	419,767
Capital leases payable	320,418	—	(109,617)	210,801	112,000
Land lease payable	509,189	—	(246,978)	262,211	262,211
Landfill liability	4,104,000	—	(289,000)	3,815,000	303,000
Accrued vacation	19,265,712	15,926,550	(17,174,774)	18,017,488	16,060,160
Net line of duty obligation	922,492	1,239,073	(256,300)	1,905,265	—
Net pension liability	280,010,206	89,395,617	(33,257,836)	336,147,987	—
Net OPEB obligation	34,586,201	10,610,870	(8,240,000)	36,957,071	—
Workers' comp. and other claims	13,768,729	1,983,434	(3,207,602)	12,544,561	3,948,303
Incurred but not reported medical claims	3,263,000	41,062,139	(40,828,139)	3,497,000	3,497,000
Total long-term liabilities	<u>\$ 750,386,727</u>	<u>227,088,579</u>	<u>(148,199,691)</u>	<u>829,275,615</u>	<u>62,801,887</u>

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

General obligation bonds of \$7.4 million are authorized but unissued.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

On June 8, 2017, the City issued \$59,455,000 principal amount of General Obligation Refunding Bonds Series 2017A with a true interest cost of 2.602%. The net proceeds of \$66,870,000 (after an original issue premium of \$7,415,896, an equity contribution from the City of \$390,619 and payment of \$391,515 for underwriting fees and other issuance costs) were used to finance the costs of various capital improvement projects.

At June 30, 2017, approximately \$80.1 million is considered defeased because refunding trusts have been established to pay for them.

Landfill Liability: The City closed its Denbigh landfill site on June 30, 1996. Virginia and Federal laws and regulations require a final cover and the performance of certain maintenance monitoring functions at the site for 30 years after closure. The \$3.8 million liability at June 30, 2017 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 2017. Actual costs may be higher due to inflation, technology changes or regulation changes.

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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

Outstanding general obligation bonds at June 30, 2017, 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, 2017
VRA 97A	01/30/97	10/01/17	3.70%	\$ 98,051
VRA 98A	01/22/98	12/01/17	3.70%	78,931
VRA 99A	03/09/99	12/01/19	3.80%	451,632
VRA 00A	03/01/00	03/01/21	3.50%	722,316
VPSA 00B	11/16/00	07/15/21	5.15%	1,413,176
VRA 01A	04/24/01	05/01/22	4.10%	673,384
VRA 02A	05/15/02	01/01/23	3.75%	1,022,550
VRA 03A	06/24/03	06/01/24	3.50%	1,321,046
QZAB 03A	12/31/03	12/28/18	3.50%	1,090,819
QZAB 03B	12/31/03	12/28/18	3.50%	1,351,675
VRA 04A	06/30/04	09/01/25	3.10%	1,482,352
VRA 05A	08/24/05	09/01/26	3.50%	1,872,106
Series 06B	02/16/06	02/01/19	4.00%	5,445,000
VRA 06A	10/20/06	11/01/27	3.10%	1,667,131
Series 07B	04/05/07	07/01/22	5.00%	17,555,000
VRA 07A	09/11/07	09/01/28	3.00%	2,040,775
Series 08A	04/09/08	07/28/28	4.00%	1,855,000
VRA 08	12/12/08	09/01/29	3.50%	2,139,958
Series 09A	05/06/09	06/30/30	3.44%	4,740,000
Series 09B	05/06/09	06/30/20	2.23%	3,815,000
VRA 09	12/16/09	09/01/30	3.35%	3,712,232
Series 11A	07/28/11	07/01/31	3.31%	8,400,000
Series 11B	07/28/11	07/01/19	1.97%	8,110,000
Series 12A	03/21/12	07/15/24	1.93%	33,095,000
Series 12B	03/21/12	07/15/19	1.41%	6,565,000
Series 12C	09/27/12	09/01/32	2.58%	31,200,000
Series 12D	09/27/12	09/01/21	1.77%	2,570,000
Series 14A	05/22/14	07/15/34	3.05%	40,500,000
Series 14A-Ref	05/22/14	07/15/27	2.43%	45,815,000
Series 14B	05/22/14	01/15/25	3.08%	4,920,000
Series 15	12/17/15	07/15/35	2.58%	46,445,000
Series 16A	06/21/16	08/01/31	2.01%	33,190,000
Series 17A	06/08/17	08/01/37	2.60%	59,455,000
Totals				<u><u>\$ 374,813,134</u></u>

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

Outstanding literary loans at June 30, 2017, 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, 2017
Warwick High	09/01/99	09/01/19	2%	\$ 27,600
Menchville High-2	10/01/00	10/01/20	2%	50,000
Denbigh High-2	08/01/01	08/01/21	2%	61,330
Gildersleeve Middle-2	08/15/01	08/15/21	2%	31,250
Dozier Middle	08/15/01	08/15/21	2%	31,250
Reservoir Middle	05/01/02	05/01/22	2%	31,250
Hines Middle	05/01/02	05/01/22	2%	31,250
Huntington Middle-2	09/01/02	09/01/22	2%	40,700
General Stanford	06/30/07	07/15/27	2%	3,894,191
Totals				\$ <u>4,198,821</u>

The following table summarizes future debt service requirements as of June 30, 2017:

Fiscal year ending June 30:	General Obligation Bonds		Literary Loans	
	Principal	Interest	Principal	Interest
2018	\$ 33,396,424	14,075,806	\$ 419,767	83,977
2019	34,116,335	13,615,258	419,767	75,580
2020	30,336,744	12,306,117	419,767	67,186
2021	29,252,846	11,038,141	410,567	58,791
2022	28,579,472	9,811,979	398,067	50,578
2023-2027	114,242,769	32,287,361	1,776,875	141,743
2028-2032	68,148,544	12,984,896	354,011	7,080
2033-2037	33,770,000	2,710,300	-	-
2038	2,970,000	44,550	-	-
Total future debt service	\$ <u>374,813,134</u>	<u>108,874,408</u>	\$ <u>4,198,821</u>	<u>484,935</u>

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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

Business-type Activities

A summary of changes in long-term liabilities for capital-related, business-type activities for the year ended June 30, 2017 is as follows:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2017</u>	<u>Due within one year</u>
Bonds payable:					
General obligation bonds \$	73,400,000	—	(12,975,000)	60,425,000	10,415,000
Revenue bonds	29,173,750	27,930,000	(988,750)	56,115,000	900,000
Deferred amounts:				—	
Add bond premiums	10,934,540	3,074,374	(1,181,902)	12,827,012	1,474,322
Total bonds payable \$	<u>113,508,290</u>	<u>31,004,374</u>	<u>(15,145,652)</u>	<u>129,367,012</u>	<u>12,789,322</u>
Net Pension liability	34,852,163	8,555,209	(5,805,987)	37,601,385	—
Deposits	3,824,476	2,420,568	(1,582,088)	4,662,956	—
Total long-term liabilities \$	<u>152,184,929</u>	<u>41,980,151</u>	<u>(22,533,727)</u>	<u>171,631,353</u>	<u>12,789,322</u>

On May 31, 2017, the Waterworks Department issued \$27,930,000 principal amount of Revenue Bonds Series 2017A with a true interest cost of 2.6%. The net proceeds of \$31,000,000 (after an original bond issue premium of \$3,074,374, equity contribution of \$119,453 and payment of \$333,827 for underwriter's discount and other issuance costs from the Waterworks operating budget) were available to finance the costs of various capital improvement projects.

Outstanding public utility bonds at June 30, 2017 are comprised of the following issues:

<u>Public Utility Bond Series</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Interest Rate (At Issue)</u>	<u>Balance June 30, 2017</u>
2006B	02/15/06	02/01/19	4.3% \$	3,980,000
2007B	04/05/07	07/01/22	5.1%	16,330,000
2008B	04/09/08	06/30/28	4.5%	1,180,000
2009B	05/06/09	09/01/29	4.3%	7,285,000
2012A	03/21/12	07/15/24	1.9%	6,795,000
2012B	03/21/12	07/15/19	1.4%	7,520,000
2014A	05/22/14	07/15/27	2.5%	17,335,000
2016A-IRB	06/02/16	06/30/37	2.7%	28,185,000
2017A-IRB	05/31/17	06/30/38	2.6%	27,930,000
Totals			\$	<u>116,540,000</u>

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

The following table summarizes future debt service requirements of Business-type Activities as of June 30, 2017:

Fiscal year ending June 30:	Business-type Activities	
	Principal	Interest
2018	\$ 11,315,000	4,531,163
2019	11,985,000	4,492,237
2020	11,450,000	3,993,884
2021	9,065,000	3,557,269
2022	9,485,000	3,091,875
2023-2027	28,100,000	10,702,850
2028-2032	16,675,000	5,446,050
2033-2037	17,015,000	2,028,925
2038	1,450,000	21,750
Totals	\$ 116,540,000	37,866,003

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, 2017 is as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Due within one year
Compensated absences	\$ 4,688,050	2,463,282	(2,331,159)	4,820,173	723,026
Workers' compensation claims	4,895,770	1,819,768	(1,383,181)	5,332,357	994,419
Capital leases payable	719,398	515,288	(361,700)	872,986	265,791
Capital facility notes payable	11,144,414	6,928,044	(162,890)	17,909,568	738,356
Other postemployment benefits	27,879,696	6,426,622	(8,271,067)	26,035,251	-
Incurred but not reported medical claims	2,827,000	28,355,880	(28,104,880)	3,078,000	3,078,000
VRS teacher pool net pension liability	260,538,000	62,055,000	(36,489,000)	286,104,000	-
NNERF net pension liability	80,247,927	19,873,443	(8,365,318)	91,756,052	-
Totals	\$ 392,940,255	128,437,327	(85,469,195)	435,908,387	5,799,592

The capital facility notes payable provided financing for energy performance contract improvements.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

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

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

E/IDA and PAC – Component Units

Industrial Revenue Bonds and Notes Payable (the Bonds and Notes) have been issued in the name of E/IDA to finance construction projects. The Bonds and Notes, both as to principal and interest, are payable generally from lease proceeds. In the event of default by the lessee, the holders of the Bonds and Notes have no recourse against the E/IDA, but must look to the property and lessee for indemnity. In 2017, approximately \$21.1 million of the Bonds and Notes are considered a moral obligation of the City. A moral obligation of the City is a contingent guarantee of a third party’s debt. It is referred to as a “moral” obligation because it is not a legal obligation of the City but a good faith obligation, which, if called upon, would require appropriations by City Council of amounts sufficient to pay the guaranteed amounts. Since 1995, when the first moral obligation was issued by the E/IDA, there has never been a need to call upon the City to appropriate any funds on morally obligated debt.

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CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2017

The E/IDA bonds and Notes at June 30, 2017 are comprised of the following:

	Issue date	Maturity date	Effective interest rates		Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Amount due within one year
Bonds payable:									
Sears	03/01/98	10/01/18	5.40%	mm	\$ 2,421,835	\$ -	\$ (1,039,867)	\$ 1,381,968	\$ 1,098,250
VSS	03/01/98	10/01/18	5.40%	mm	2,198,276	-	(943,891)	1,254,385	996,886
Downtown Eng	04/05/00	07/01/31	7.64%		14,720,000	2,640,000	(3,700,000)	13,660,000	1,060,000
Merchant's Walk	12/21/10	12/01/20	2.70%	a	4,470,000	-	(894,000)	3,576,000	894,000
Fountain Way	12/07/04	07/01/31	4.75%	a	670,000	-	(670,000)	-	-
Hotel Promissory	12/07/04	07/01/31	4.75%	a	205,000	-	(205,000)	-	-
Conference Ctr	06/30/06	07/01/31	4.00%	a	1,110,000	-	(1,110,000)	-	-
CITI A '07	02/26/07	08/01/22	1.41%	v	1,888,995	-	(258,567)	1,630,428	277,107
CITI B '07	02/26/07	08/01/22	1.96%	v	390,888	-	(55,392)	335,496	58,615
Series 2012A	10/12/12	07/01/30	4.00%	a	25,390,000	-	-	25,390,000	-
Series 2012B	10/12/12	07/01/31	0.76%	a	25,610,000	-	(1,830,000)	23,780,000	2,670,000
A-School Garage	07/23/15	09/01/27	3.80%		11,723,076	-	(976,924)	10,746,152	976,924
Series 2015	07/23/15	09/01/27	3.48%		4,575,000	-	-	4,575,000	915,000
Totals					95,373,070	2,640,000	(11,683,641)	86,329,429	8,946,782
Premium on bonds payable					3,627,064	-	(376,121)	3,250,943	368,626
Discount on bonds payable					(615)	-	615	-	-
Add interest rate swap fair value					90,311	-	(90,311)	-	-
Total bonds payable, net					\$ 99,089,830	2,640,000	(12,149,458)	89,580,372	\$ 9,315,408
Notes payable:									
809 Omni Blvd	08/13/07	07/01/17	1.30%	v	1,500,000	-	-	1,500,000	1,500,000
Sherwood Note A	11/23/16	01/01/32	3.14%			4,900,000	-	4,900,000	326,666
Sherwood Note B	11/23/16	01/01/32	3.14%			3,100,000	-	3,100,000	206,667
Total bonds and notes payable					\$ 100,589,830	\$ 10,640,000	\$ (12,149,458)	\$ 99,080,372	\$ 11,348,741

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

a denotes payment agreement with the City

v denotes variable rate bonds

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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

recourse to the E/IDA, but must look to the property and lessee for indemnity. Accordingly, the Bonds are not reported as liabilities in the accompanying basic financial statements.

At June 30, 2017 and June 30, 2016, there were eleven and ten, respectively, of the Bonds outstanding with an aggregate principal amount payable of \$438,476,178 and \$367,556,937 million, respectively.

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

As a means to lower its borrowing costs when compared against fixed-rate bonds at the time of issuance, the E/IDA have entered into multiple interest rate swaps in connection with various revenue bond issuances. The intention of the swaps was to effectively change the E/IDA's variable interest rate on the bonds to a synthetic fixed rate. Following is a summary of significant information pertaining to each swap:

	<u>2000A</u>	<u>2000B</u>
Original notional value	\$ 5,000,000	\$ 25,000,000
Notional value at 6/30/17	-	-
Effective Date	6/1/2001	6/1/2001
Termination (maturity) date	7/1/2016	7/1/2016
Bond maturity date	7/1/2031	7/1/2031
Fixed rate	7.64%	7.64%
Floating leg	Libor Weekly index	Libor Weekly index
Floating rate at 6/30/17	0.00%	0.00%

Under the swaps, the E/IDA pay the counterparty the above fixed rate and receive a variable rate payment based on LIBOR indexes. The Series 2000A and Series 2000B variable rate is determined weekly by the Remarketing Agent at a rate equal to the rate of interest certified to the Trustee by

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the Remarketing Agent on and as of each Wednesday (the “Determination Date”) as the minimum rate of interest which, in the judgment of the Remarketing Agent taking into account market conditions prevailing at the Determinate Date, would be necessary to enable the Remarketing Agent to arrange for the sale of all the Bonds in the secondary market on the Determination Date, at a price equal to the principal amount thereof. A weighted average of the weekly rates is calculated to determine the variable rate for a specific month. In both instances, the bonds’ variable rate coupons are based on the same index as the variable rate paid by the counterparty.

Because interest rates have declined since the execution of the swaps, the swaps had a combined negative fair value of \$90,311 as of June 30, 2016. Both swaps matured on July 1, 2016 therefore there was no value as of June 30, 2017. If the Series 2000A or 2000B interest rate swaps were terminated, the E/IDA would be required to pay a termination payment in the amount of the fair value of the swap as of the termination date. This fair value estimate is based on expected forward LIBOR swap rates and discounted expected cash flows and is derived from independent market valuations.

As of June 30, 2016, the E/IDA was not exposed to credit risk because the swaps had a negative value. As of July 1, 2016, the swaps matured.

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

The E/IDA have implemented a strategy on the swaps designed to provide a synthetic fixed rate and, as a result of the strategy, the E/IDA have assumed any additional interest rate risk.

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

The E/IDA are exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated debt. These swaps have terminated; therefore, as of July 1, 2016, the E/IDA will no longer realize any rollover risk.

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The PAC Airport Improvement Revenue Bonds at June 30, 2017, are comprised of the following:

Series	Issue Date	Maturity Date	Eff. Int. Rate (%)	Balance July 1, 2016	Reductions	Balance June 30, 2017	Amt Due in one year
2002	07/03/02	07/01/27	2.8	\$ 1,428,473	113,785	1,314,688	116,954
2005A	12/15/05	01/15/32	4.3	5,166,962	240,245	4,926,717	249,480
2005B	12/15/05	01/15/32	5.8	2,322,978	95,523	2,227,455	100,470
Totals				\$ 8,918,413	449,553	8,468,860	466,904

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

	E/IDA		PAC	
	Principal	Interest	Principal	Interest
Fiscal year ending June 30:				
2018	\$ 10,980,115	2,972,106	466,904	369,944
2019	10,289,474	2,742,970	487,098	349,750
2020	7,417,963	2,659,832	508,221	328,627
2021	7,624,787	2,257,811	530,316	306,532
2022	6,714,284	2,050,464	553,432	283,416
2023-2027	31,039,216	7,197,553	3,140,594	1,031,008
2028-2032	21,763,590	1,920,939	2,782,295	326,118
Total	\$ 95,829,429	21,801,675	8,468,860	2,995,395

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(8) Defined Benefit Retirement Plan

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

Plan description:

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

The Plan consists of two separate funds, the Pension Fund (Pension) and the Other Postemployment Benefits (OPEB) Fund. The Plan's two Funds are considered trust funds of the City and are reported as fiduciary trust funds. The nine voting members of the Retirement Board oversee the operation of the Pension and OPEB Funds. The City issues a publicly available set of financial statements and required information for the Plan. A copy may be obtained from the Web at <http://www.nnva.gov/580/Retirement>.

Benefits Provided:

All full-time regular employees hired prior to March 1, 2010 for the City and hired prior to July 1, 2009 for Schools are members of the Pension Fund. (Members who have earned a supplemental benefit are shown as "School VRS" members in the chart below.) Employees hired after the above dates are in VRS, a multiple-employer defined benefit pension plan administered by the Commonwealth of Virginia. For the years ended June 30, 2017 and June 2016, the total payroll of the City and Schools was approximately \$374.4 million and \$362.5 million, respectively, with approximately \$108.2 million and \$113.3 million paid to employees covered by the Pension Fund. The decrease in covered payroll from 2016 is the result of employees retiring or leaving employment.

The Pension Fund provides pension, life insurance and disability benefits. Members vest after five years of credited service. Employees who retire at or after age 60 (50 for police officers, firefighters and deputy sheriffs) with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.0% of their average final compensation for each year of credited service worked through February 28, 2010, 1.85% for each year of credited service from March 1, 2010 through December 31, 2012, and 1.65% for each year of credited service after January 1, 2013. (For public safety employees, the multiplier remains at 1.85% for time worked after January 1, 2013.) Average Final Compensation (AFC) is defined as the average

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compensation paid during the member's 36 highest paid consecutive months of credited service. Employees with 30 years credited service (25 for police officers, firefighters and deputy sheriffs) may retire at any age with full benefits. Employees (other than police officers, firefighters and deputy sheriffs) with 25 years of service may retire prior to age 60 and receive a reduced benefit. City employees in NNERF began to contribute 5% of their salary to the Plan as of January 1, 2013. Schools employees began contributing 1% of their pay effective July 1, 2013 and contribute the full 5% of their pay effective July 1, 2014.

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

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

Employees covered by Benefit Terms:

At June 30, 2017, membership in the Plan consisted of:

	Retirees and Beneficiaries	Vested Terminated Employees	Active Employees Vested	Total
City general	1,377	783	829	2,989
City police and fire	894	287	656	1,837
Public utilities	281	105	204	590
School VRS	2,731	3,204	-	5,935
School Non-VRS	901	259	479	1,639
Total	<u>6,184</u>	<u>4,638</u>	<u>2,168</u>	<u>12,990</u>

Contributions

The Plan engages an actuary to determine the Actuarially Determined Contribution (ADC) in accordance with GAAP. However, the City has elected to continue to compute the Actuarially Required Contribution (ARC) in order to track its progress on the eight-year funding program established by the City in 2010, which was put in place to provide that, by 2017, the City would be contributing 100% of the recommended contribution. The City

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began funding 100% of the ADC beginning in fiscal year 2016, one year earlier than planned. The total contributions as a percentage of the ARC was 100% for fiscal year 2017. Effective January 1, 2013, employee contributions to the Pension Fund were made mandatory. Contributions totaling \$39,135,864 and \$5,987,851 were made by employers and employees, respectively, to the Pension Fund during the year ended June 30, 2017. The percentage of contributions to covered payroll for fiscal year 2017 was 41.7% and 40.1% for fiscal year 2016. The percentage of normal costs to covered payroll for fiscal year 2017 was 8.53% and 7.98% for fiscal year 2016.

Net Pension Liability

The City's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of July 1, 2015, using an updated actuarial assumption, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Actuarial Assumptions

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

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry Age Normal
Amortization method	Closed
Remaining amortization period	30 years level dollar from July 1, 2011
Asset Valuation method	Five-Year smoothed market
Actuarial assumptions:	
Investment rate of return	7.50%
Rate of salary increases	For the City:
	2.00% for the next two years
	4.50% thereafter
	For the Non-VRS Schools:
	3.00% for the next year

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	2.00% for the second year
	4.5% thereafter
Cost of living adjustment	1.33%
Inflation	2.80%
Rate of Mortality	RP-2000 Sex distinct Combined Healthy Mortality Projected to 2020 by Scale AA

Long-Term Expected Rate of Return

The long-term expected rate of return on NNERF investments was determined using best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation), developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The annual money weighted rate of return net of investment fees for fiscal year 2017 was 14.83%. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
Large Cap Equities	5.4%	24.0%
Mid Cap Equities	9.1%	14.0%
Small Cap Equities	6.2%	12.0%
International Equities	3.4%	12.0%
Emerging Markets	5.5%	4.0%
Real Estate	7.0%	4.0%
Private Equities	11.3%	6.0%
Timberland	4.2%	8.0%
Fixed Income (Bonds)	2.3%	15.0%
Cash	0.0%	1.0%
Total		100.0%

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

The discount rate used to measure the total pension liability was 7.50 percent. In developing the projection of cash flows used to determine the discount rate, the actuaries have assumed that the employer contributions will continue to follow the written contribution policy. The City's contribution rate is the sum of the normal cost rate plus

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amortization of the Plan's unfunded liability plus a provision for expenses. The normal cost rate is determined under the entry age actuarial cost method while the UAL rate is that necessary to pay down the UAL with a thirty year closed amortization with level dollar payments as of July 1, 2011. The actuaries also assume that member contributions will continue to be made at the rates specified in the Plan.

Based on these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current members until the last payment for the current covered population is made as of June 30, 2016 measurement date. Consequently, the single equivalent rate used to determine the total pension liability as of June 30, 2016 is 7.5%, the long-term expected rate-of-return as defined by GAAP as of that date.

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

	1% Decrease 6.50%	Discount Rate 7.50%	1% Increase 8.50%
Total pension liability	\$ 1,424,218,755	\$ 1,281,164,122	\$ 1,160,676,165
Plan fiduciary net position	815,658,698	815,658,698	815,658,698
Net pension Liability	<u>\$ 608,560,057</u>	<u>\$ 465,505,424</u>	<u>\$ 345,017,467</u>
Plan fiduciary net position as a Percentage of the Total Pension Liability	57.3%	63.7%	70.3%

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

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Changes in the Net Pension Liability

The City's change in net pension liability of the Pension Fund for 2016 was as follows:

	Total Pension Liability (a)	City's (b)	Proprietary's (b)	School's (b)	Net Position Liability (a)-(b)
Balances at June 30, 2015	\$ 1,245,750,531	\$ 591,166,756	\$ 64,936,274	\$ 194,537,205	\$ 395,110,296
Changes for the year:					
Service cost	9,467,439	-	-	-	9,467,439
Interest	91,489,549	-	-	-	91,489,549
Differences between expect	6,473,172	-	-	-	6,473,172
Contributions - employer	-	28,166,706	3,150,701	7,688,492	(39,005,899)
Contributions - member	-	4,633,182	518,263	1,264,691	(6,416,136)
Net investment income	-	(5,391,175)	(603,052)	(1,471,596)	7,465,822
Benefit payments	(72,016,569)	(52,004,173)	(5,817,138)	(14,195,258)	-
Administrative expenses	-	(665,198)	(74,408)	(181,575)	921,181
Net changes	<u>35,413,591</u>	<u>(25,260,658)</u>	<u>(2,825,634)</u>	<u>(6,895,246)</u>	<u>70,395,128</u>
Balances at June 30, 2016	<u><u>\$ 1,281,164,122</u></u>	<u><u>565,906,098</u></u>	<u><u>62,110,640</u></u>	<u><u>187,641,959</u></u>	<u><u>465,505,424</u></u>

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

	June 30, 2016		
Activities	Contributions	Net Pension Liability	Proportionate Share
Governmental Activities	\$ 28,166,706	\$ 336,147,987	72.21%
Business - type Activities	3,150,717	37,601,385	8.08%
Component Unit - School Board	7,688,476	91,756,052	19.71%
Total	<u><u>\$ 39,005,899</u></u>	<u><u>\$ 465,505,424</u></u>	<u><u>100.00%</u></u>

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

For the year ended June 30, 2017 the City recognized pension expense of \$52,626,465. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	<u>Governmental Activities</u>		<u>Business- type Activities</u>		<u>Total Activities</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflow of Resources
Employer contributions subsequent to measurement date	\$ <u>28,307,293</u>	\$ <u>-</u>	\$ <u>3,557,799</u>	\$ <u>-</u>	\$ <u>31,865,092</u>	\$ <u>-</u>
Differences between expected and actual experience	\$ <u>40,256,646</u>	\$ <u>-</u>	\$ <u>4,503,093</u>	\$ <u>-</u>	\$ <u>44,759,739</u>	\$ <u>-</u>

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

Year ended June 30:

2017	\$ 8,144,173
2018	8,144,172
2019	17,190,693
2020	<u>11,280,701</u>
	\$ <u>44,759,739</u>

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

Payable to the Pension Plan

At June 30, 2017, the City did not have a payable to the pension plan.

(b) Virginia Retirement System:

Plan Description:

The City and PAC contribute to the VRS, an agent multiple-employer defined benefit pension plan administered by the VRS. Those hired between July 1, 2009 and June 30, 2010 are under the provisions of Plan 1, those hired between July 1, 2010 and December 31, 2013 are under the provisions of Plan 2 and those hired on or after January 1, 2014 are under the provision of the hybrid plan.

The Schools contribute to the VRS, which administers two plans – an agent multiple employer plan and a cost-sharing teachers multiple-employer defined benefit plan. VRS administers an agent multiple-employer defined benefit pension plan for all School Board

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non-professional employees hired on or after July 1, 2009. Those hired between July 1, 2009 and June 30, 2010 are under the provisions of Plan 1, those hired between July 1, 2010 and December 31, 2013 are under the provisions of Plan 2 and those hired on or after January 1, 2014 are under the provisions of the hybrid plan. The Schools information is not included in this report, but can be obtained from the School's Web site at <http://sbo.nn.k12.va.us/budget/CAFR.pdf>.

Benefits Provided:

All full-time, salaried permanent employees of participating employers must participate in the VRS. As of March 1, 2010, the City closed NNERF to new membership. All full-time employees hired after February 28, 2010 participate in the VRS. Benefits vest after five years of service. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave and previously refunded VRS service.

VRS issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

VRS administers three different benefit structures for local government employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

About VRS Plan 1	About VRS Plan 2	About the Hybrid Retirement Plan
Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were	The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible

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	not vested as of January 1, 2013.	<p>Members”)</p> <ul style="list-style-type: none"> • The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan’s effective date for opt-in members was July 1, 2014</p> <p>*Non-Eligible Members Some employees are not</p>

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<p>through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions</p> <p>Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions</p> <p>Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p>	<p>Retirement Contributions</p> <p>A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

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<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months)</p>

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<p>requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>		<p>of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u></p> <p>Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1.</p>

CITY OF NEWPORT NEWS, VIRGINIA

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<p>member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>		<p><u>Defined Contribution Component:</u></p> <p>The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p>Average Final Compensation</p> <p>A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation</p> <p>A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation</p> <p>Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier VRS:</p> <p>The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p>Sheriffs and regional jail superintendents:</p> <p>The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p>Political subdivision</p>	<p>Service Retirement Multiplier VRS:</p> <p>Same as VRS Plan1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p>Sheriffs and regional jail superintendents:</p> <p>Same as Plan 1.</p> <p>Political subdivision</p>	<p>Service Retirement Multiplier Defined Benefit Component VRS:</p> <p>The retirement multiplier is for the defined benefit is 1.00%.</p> <p>For members that opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p>Sheriffs and regional jail superintendents:</p> <p>Not applicable.</p> <p>Political subdivision</p>

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<p>hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p>hazardous duty employees: Same as Plan 1.</p>	<p>hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age Defined Benefit Component: VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility Defined Benefit Component: VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

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<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 50 with at least five years of creditable service</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility Defined Benefit Component: VRS: Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Not applicable</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p>Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p>Eligibility: Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement Defined Benefit Component: Same as VRS Plan 2.</p> <p>Defined Contribution Component: Not applicable.</p> <p>Eligibility: Same as Plan 1 and Plan 2.</p>

CITY OF NEWPORT NEWS, VIRGINIA

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<p>will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 	<p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1</p>	<p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>
<p>Disability Coverage</p> <p>Members who are eligible to</p>	<p>Disability Coverage</p> <p>Members who are eligible to</p>	<p>Disability Coverage</p> <p>Employees of political</p>

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<p>be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>
<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. <p><u>Defined Contribution Component:</u> Not applicable.</p>

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Number of Employees by Class:

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

	June 30, 2015
	Retirees and Beneficiaries
Inactive Members or Their Beneficiaries Currently Receiving Benefits	6
Inactive Members	
Vested	12
Non-Vested	196
Active Elsewhere in VRS	117
Total Inactive Members	325
Active Members	1,043
Total	1,374

Contributions:

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The City's contractually required contribution rate for the year ended June 30, 2017 was 5.44% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$ 2,767,948 and \$2,754,620 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Asset:

The City's net pension asset was measured as of June 30, 2016. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation

CITY OF NEWPORT NEWS, VIRGINIA

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performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Actuarial Assumptions:

The total pension liability for General Employees was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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

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

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

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

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Long-term Expected Rate of Return:

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

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

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

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

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

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

	1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
Plan's Net Pension Asset	305,554	4,549,064	7,861,316

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

Changes in the Net Pension Asset

The City's change in net pension asset of the VRS Plan for 2016 was as follows:

	Total Pension Liability (a)	City's Fiduciary Net Position (b)	Proprietary's Fiduciary Net Position (b)	Net Pension Asset (a)-(b)
Balances at June 30, 2015	\$ 14,384,854	\$ 17,644,244	\$ 1,436,526	\$ (4,695,916)
Changes for the year:				
Service cost	4,831,751	-	-	4,831,751
Interest	1,000,116	-	-	1,000,116
Differences between expected and actual experience	(127,774)	-	-	(127,774)
Contributions - employer	-	2,589,343	165,277	(2,754,620)
Contributions - member	-	2,186,594	139,570	(2,326,164)
Net investment income	-	456,206	29,120	(485,326)
Benefit payments	(194,963)	(183,265)	(11,698)	-
Administrative expenses	-	(8,193)	(523)	8,716
Other Changes	-	(144)	(9)	153
Net changes	<u>5,509,130</u>	<u>5,040,541</u>	<u>321,737</u>	<u>146,852</u>
Balances at June 30, 2016	<u>\$ 19,893,984</u>	<u>\$ 22,684,785</u>	<u>\$ 1,758,263</u>	<u>\$ \$ (4,549,064)</u>

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Notes to Basic Financial Statements

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

For the year ended June 30, 2017, the City recognized VRS pension expense of \$2,022,431. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Governmental Activities		Business- type Activities		Total Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions subsequent to measurement date	\$ 2,601,871	\$ -	\$ 166,077	\$ -	\$ 2,767,948	\$ -
Differences between expected and actual experience	\$ 646,254	\$ -	\$ 41,250	\$ -	\$ 687,504	\$ -
Net difference between projected and actual earnings on pension plan investment	\$ -	\$ 461,214	\$ -	\$ 29,439	\$ -	\$ 490,653

\$2,767,948 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the Fiscal Year ending June 30, 2018. Amounts reported as deferred outflows of resources and deferred inflows of resources related to VRS will be recognized in pension expense as follows:

Year ended June 30:

2018	\$ 14,206
2019	14,207
2020	190,496
2021	116,075
2022	(88,130)
Thereafter	(50,003)
Total	\$ 196,851

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

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Notes to Basic Financial Statements

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Payable to the Pension Plan

At June 30, 2017, the City did not have a payable to the VRS plan.

(9) Other Postemployment Benefits (OPEB) Fund

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

Plan Description

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

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

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

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

The OPEB Fund is a separate pension trust fund and is considered part of the City's financial reporting entity. The pension trust issues a publicly available financial report that includes financial statements and required information for the OPEB Fund. This information can be obtained at <https://www.nnva.gov/580/Retirement>.

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

	Health Insurance		Dental Insurance		Life Insurance	
	Participants	Costs	Participants	Costs	Participants	Costs
2017	1,885	\$ 7,799,991	1,589	\$ 536,371	1,677	\$ 1,175,801
2016	1,814	\$ 6,816,017	1,556	\$ 540,441	1,625	\$ 337,698
2015	1,801	\$ 7,478,885	1,485	\$ 505,231	1,552	\$ 333,323

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

Contribution Required and Contributions Made

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

Contributions by the City to the OPEB Fund totaling \$8.2 million, \$8.9 million and \$10.2 million were made during the years ended June 30, 2017, 2016, and 2015 respectively. The following table shows the components of the City's annual OPEB costs for the year, the amounts contributed to the Plan, and changes in the City's net OPEB obligation:

	2017	2016	2015
Annual Required Contribution	\$ 11,495,821	\$ 12,662,736	\$ 12,569,567
Interest on net OPEB Obligation	1,383,448	1,263,086	1,196,914
Adjustment to annual required contribution:	(2,268,399)	(2,021,315)	(1,872,194)
Annual OPEB Cost	10,610,870	11,904,507	11,894,287
Contributions made	(8,240,000)	(8,895,444)	(10,240,000)
Increase in net OPEB obligation	2,370,870	3,009,063	1,654,287
Net OPEB obligation at beginning of fiscal year	34,586,201	31,577,138	29,922,851
Net OPEB obligation at end of fiscal year	\$ 36,957,071	\$ 34,586,201	\$ 31,577,138

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligations
June 30, 2017	\$ 10,610,870	77.66%	\$ 36,957,071
June 30, 2016	\$ 11,904,507	74.72%	\$ 34,586,201
June 30, 2015	\$ 11,894,287	86.09%	\$ 31,577,138

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Notes to Basic Financial Statements

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Funded Status and Funding Progress

The funded status of the City's OPEB Fund (in millions) as of fiscal, 2017, 2016 and 2015 was as follows:

	2017	2016	2015
Actuarial value of assets	\$ 31.5	\$ 27.5	\$ 27.5
Actuarial Accrued Liability (AAL)	116.0	183.5	178.0
Unfunded AAL (UAAL)	\$ 84.5	\$ 156.0	\$ 150.5
	2017	2016	2015
Funded Ratio	27.2 %	15.0 %	15.4 %
Covered Payroll	\$ 95.7	\$ 100.6	\$ 105.4
UAAL as a percentage of covered payroll	88.3 %	155.1 %	142.8 %

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

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

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

Actuarial Methods and Assumptions

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

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Actuarial valuation date	July 1, 2017
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Remaining amortization period	23 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	7.35%
Rate of salary increases	4.60%
Ultimate rate of medical inflation (capped by employer policy)	1.26%
Inflation	2.60%

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

Plan Description

The Line of Duty Plan (LOD) was established by the 2010 Appropriation Act of the Virginia General Assembly, and provides death, health, dental, and vision insurance benefits for public safety employees who are injured in the line of duty. Although the benefit is administered by City, the State Comptroller determines the benefit eligibility. The Newport News LOD plan is a single-employer plan. Benefits and contribution provisions are established by City Council. An actuarial service is employed to advise City Council of the contributions necessary to fund the benefits. There is no formal trust arrangement in place as of June 30, 2017.

The actual cost to the City was \$307,765 for the year ending June 30, 2017. Approximately 1,174 active employees are covered under the Plan, and 23 retired employees and spouses are currently receiving benefits.

Contribution Required and Contributions Made

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

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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

	2017
Net OPEB obligation at beginning of fiscal year	\$ 922,492
Annual Required Contribution for FYE	1,253,470
Interest on Net OPEB Obligation	36,900
Adjustment to Annual Required Contribution	(51,297)
Annual OPEB Cost	\$ 1,239,073
Employer Contributions	(256,300)
Net OPEB obligation at end of fiscal year	<u>\$ 1,905,265</u>

Funded Status and Funding Progress

The funded status of the City's LOD Plan as of fiscal 2017 is as follows:

	2017
Actuarial value of assets	\$ 2,508,498
Actuarial Accrued Liability (AAL)	8,035,287
Unfunded AAL (UAAL)	<u>\$ 5,526,789</u>
	2017
Funded Ratio	31%
Covered Payroll	\$ 59,928,556
UAAL as a percentage of covered payroll	9%

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

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

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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

Actuarial Methods and Assumptions

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

Actuarial valuation date	July 1, 2017
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Open
Remaining amortization period	30 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	3.58%
Rate of salary increases	4.60%
Ultimate rate of medical inflation	5.00%
Inflation	2.60%

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

Plan Description

In FY 2000, an OPEB fund was established to accumulate assets to pay for other postemployment benefits. The fund was administered by the City to provide health, dental and life insurance benefits for City and School Board pre-65 retirees. During FY 2010, the School Board established a separate Trust Fund apart from the City and all assets belonging to the School Board were transferred to this new fund. The plan is a single-employer plan. Benefits and contribution provisions are established by the School Board and may be amended only by the School Board. An actuarial service is employed to advise the School Board of the contributions necessary to fund the benefits.

The School Board provides health and dental insurance for their pre-65 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 except that employees retiring after July 1, 2011 have their group premiums based upon the health claim experience of just the retiree group (adjusted to filter out large claims greater than \$75,000). The amount contributed by the School Board is based on the retiree's years of service at retirement. Retirees with thirty years of service and who

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

retired by July 1, 2011 will pay what an active employee would pay. Retirees after that date pay higher premiums commensurate with claims experience.

Approximately 220 School Board retirees are grandfathered to participate in the City OPEB Fund's sponsored life insurance coverage paid for by the School Board. The premiums are not material. These retirees have elected supplemental coverage under the City OPEB fund.

The OPEB Trust Fund does not issue a separate report.

Contribution Required and Contributions Made

OPEB funding policy provides for periodic employer contributions at actuarially determined rates that express, as percentages of annual covered payroll, contributions sufficient to accumulate sufficient assets to pay benefits when due. A level percentage of payroll with a 25-year amortization period is used for purposes of computing the minimum accrual in accordance with GAAP. The projected unit credit method is used for cost calculations.

Contributions to normal costs totaling \$8.3 million were made during the year ended June 30, 2017. The School Board's annual OPEB cost for the current year and past two years are as follows (in millions):

(in millions)	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual Required Contribution (ARC)	\$ 6.7	\$ 7.8	\$ 7.4
Interest on net OPEB Obligation	2.0	2.1	2.1
Adjustment to ARC	<u>(2.3)</u>	<u>(2.5)</u>	<u>(2.5)</u>
Annual OPEB Cost	6.4	7.4	7.0
Actual Contribution	<u>(8.3)</u>	<u>(7.8)</u>	<u>(7.4)</u>
Decrease in net OPEB obligation	(1.9)	(0.4)	(0.4)
Net OPEB obligation at beginning of fiscal year	27.9	28.3	28.7
Net OPEB obligation at end of fiscal year	<u><u>\$ 26.0</u></u>	<u><u>\$ 27.9</u></u>	<u><u>\$ 28.3</u></u>

Funded Status and Funding Progress

The funded status of the School's plan as of fiscal 2017, 2016 and 2015 was as follows:

(in millions)	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarial value of assets	\$ 23.1	\$ 18.3	\$ 15.8
Actuarial Accrued Liability (AAL)	99.5	99.0	93.0
Unfunded AAL (UAAL)	<u>76.4</u>	<u>80.7</u>	<u>77.2</u>
Funded ratio	23.2%	18.5%	17.0%
Covered Payroll	\$ 111.3	\$ 105.7	\$ 111.5
UAAL as a percentage of covered payroll	68.6%	76.3%	69.2%

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

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.

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

Actuarial Methods and Assumptions

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

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	24 years
Asset valuation method	Market Value

Actuarial Assumptions:

Investment rate of return	7.00% net of investment expense and Including inflation
Projected salary increases	NA
Healthcare inflation rate	7.8% initially, grading down to 4.5% ultimate
Inflation rate	NA

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

(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 2017, based on an average City salary of \$51,242 the City contributed \$1,537 per participant. For the year ended June 30, 2017, the City contributed a total of \$1,948,085 to the HRA accounts. The accumulated amounts are available to participants at retirement or at age 55, if terminated prior to reaching retirement eligibility. The Plan reimburses the participant, the participant's spouse, and dependents for insurance premiums or other medical payments expended for permissible benefits described under the plan. HRA participants cannot be members of the City's OPEB Fund.

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

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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

(11) Self Insurance

(a) Medical Benefits

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

Changes in the medical incurred but not reported amount during the fiscal years ended June 30, 2017 and 2016 for the City and the Public Schools were as follows:

	City		Public Schools	
	2017	2016	2017	2016
Claims payable at beginning of year	\$ 3,263,000	3,536,469	2,827,000	2,661,000
Claims and changes in estimates	41,062,139	40,354,474	28,355,880	27,402,785
Claim payments	(40,828,139)	(40,627,943)	(28,104,880)	(27,236,785)
Claims payable at end of year	<u>\$ 3,497,000</u>	<u>\$ 3,263,000</u>	<u>3,078,000</u>	<u>2,827,000</u>

(b) Workers' Compensation

The City self-insures for workers' compensation through the General Fund up to \$1,750,000 per claim. The School Board has discontinued excess insurance coverage, effective July 1, 2006. Expenditures are charged to the various departments at amounts that approximate what third-party insurers would have charged. Amounts due in future years on claims made as of June 30, 2017 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, 2017 and 2016 for the City and the Public Schools.

	City		Public Schools	
	2017	2016	2017	2016
Claims payable at beginning of year	\$ 11,512,430	11,171,408	4,895,770	4,757,302
Claims and changes in estimates	1,859,162	2,860,222	1,819,768	1,692,550
Claim payments	(2,429,790)	(2,519,200)	(1,383,181)	(1,554,082)
Claims payable at end of year	<u>\$ 10,941,802</u>	<u>11,512,430</u>	<u>5,332,357</u>	<u>4,895,770</u>

A loss analysis was conducted by Oliver Wyman Actuarial Consulting, Inc. on this fund. The total actuarially computed liability as of June 30, 2017 for the City and School Board was determined to be approximately \$10.9 million and \$5.3 million, respectively.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

(c) Other

The City self-insures for automotive and general liability through the General Fund up to \$1 million per occurrence, and up to \$250,000 for each fire and property claim. The School Board insures for property losses with self-insured retention per occurrence of \$25,000 for basic and earthquakes and \$5,000 for floods and in-land marine. The School Board is self-insured for losses resulting from vehicular accidents of up to \$1,000,000. Claims in excess of the self-insured retention limitations are covered by third party insurance.

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

Auto & General Liability	City	
	2017	2016
Claims payable at beginning of year	\$ 2,256,299	\$ 1,983,075
Claims and changes in estimates	124,272	2,443,028
Claim payments	(777,812)	(2,169,804)
Claims payable at end of year	<u>\$ 1,602,759</u>	<u>\$ 2,256,299</u>

The auto and general liability claims decreased from \$2.3 million to \$1.6 million.

(12) Contingent Liabilities

(a) Grants

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

(b) Litigation

The City is involved in several lawsuits arising in the ordinary course of operations. The City is self-insured with respect to automotive liability, general liability, and property damage and workers' compensation. It is the opinion of City management, based on the advice of the City Attorney, that any losses incurred as a result of claims not included in accrued liabilities as of June 30, 2017, will not be material to the financial statements.

(c) Encumbrances

Encumbrance accounting, the recording of purchase orders, contracts, and other monetary commitments in order to reserve an applicable portion of an appropriation is used as an extension of formal budgetary control by the City. At June 30, 2017, the City had outstanding encumbrances as follows:

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

General Fund

General government	\$ 826,137
Self insurance	1,144
Judicial	6,036
Public safety	680,097
Public works	2,051,260
Health and welfare	36,994
Parks, recreation and cultural	131,841
Community development	20,681
Total General Fund	<u>\$ 3,754,190</u>

Debt Service Fund

Debt service	\$ 15,223
Total Debt Service Fund	<u>\$ 15,223</u>

Bond Fund

General government	\$ 1,699
Public safety	232,855
Public works	11,220,823
Health and welfare	53,165
Parks, recreation and cultural	347,462
Community development	246,406
Total Bond Fund	<u>\$ 12,102,410</u>

Nonmajor governmental funds

General government	\$ 3,398,633
Public safety	749,874
Public works	17,574,493
Health and welfare	43,746
Parks, recreation and cultural	321,252
Total nonmajor governmental funds	<u>\$ 22,087,998</u>
Total	<u><u>\$ 37,959,821</u></u>

(13) Jointly Governed Organizations and Joint Ventures

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

The CSB operates as an agent for the cities of Hampton and Newport News in the establishment and operation of community mental health, mental retardation and substance abuse programs as provided for in Chapter 10 of Title 37.1 of the Code of Virginia. The CSB designates its own management and adopts its own budget. The operations are financed principally by state and federal funds. Separate financial statements are available from the CSB, 300 Medical Drive, Hampton, VA 23666.

(b) Hampton Roads Regional Jail Authority (HRRJA)

The HRRJA is a public corporate instrumentality of the Commonwealth of Virginia, created December 14, 1993, by the cities of Hampton, Newport News, Norfolk and Portsmouth. Beginning July 1, 2014, the City

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

of Chesapeake entered into an agreement with the Authority to become a full member upon adoption of the agreement by all five City Councils. This was accomplished by approval of a revised and restated Service Agreement by all five governing bodies, effective August 26, 2014. The HRRJA is governed by a fifteen-member board, consisting of three members from each city. The purpose of the intergovernmental authority is to develop, construct, equip, maintain and operate a regional jail. No one locality contributes more than 50% of the HRRJA funding or has responsibility over its operations. Separate financial statements are available from the Hampton Roads Regional Jail Authority, 2690 Elmhurst Lane, Portsmouth, Virginia 23701-2745.

(c) Hampton Roads Economic Development Alliance (HREDA)

The HREDA is a non-profit, public-private partnership that aggressively markets Virginia's Hampton Roads region as the primary region of choice for economic investment and business expansion. All HREDA business attraction initiatives and activities are designed to promote the jurisdictions of Chesapeake, Franklin, Gloucester County, Hampton, Isle of Wight County, James City County, Newport News, Norfolk, Poquoson, Portsmouth, Southampton County, Suffolk, Virginia Beach, Williamsburg and York County, Virginia. The business affairs are managed by a Board of not less than fifty or more than 300 Directors. The City's Mayor and the Director of E/IDA are board members. HREDA receives funding from both private and public entities. Newport News contributed \$161,685 in FY 17. Separate financial statements are available from the HREDA, 500 Main Street, Suite 1300, Norfolk, Virginia 23510.

(14) Deficit Fund Balance

The City has an accumulated deficit in the Non Major Combining Statement of Revenues, Expenditures and Changes in Fund Balance as of June 30, 2017 of \$74,059 for the Special Events fund, \$14,295 for the Comprehensive Services Act fund (CSA) and \$268,327 for the Animal Shelter fund. The Special Events fund deficit is the result of expenditures exceeding revenue for fiscal year 2017. This deficit does not indicate the Special Events fund is facing financial difficulty. The CSA fund deficit is the result of expenditures exceeding revenue for fiscal year 2016. At the end of fiscal year 2016, CSA reported a deficit of \$146,680. During fiscal year 2017, revenues exceeded expenditures by \$132,385, thus reducing the deficit to \$14,295. This deficit does not indicate the CSA fund is facing financial difficulty. The Animal Shelter fund deficit is the result of operating expenditures exceeding budgeted amounts in fiscal year 2016. Fiscal year 2016 was the first full year of operations. As a result, budgeted amounts were inadequate to cover unforeseen operating overages. Fund balance increased \$14,694, from a deficit of \$283,021 in fiscal year 2016 to a deficit of \$268,327. This deficit does not indicate the Animal Shelter fund is facing financial difficulty.

(15) Tax Abatements

The EDA administers a Local Tourism Zone grant program which provides companies, if meeting the eligibility criteria, to a 100% reimbursement of business license tax and 40% reimbursement of food and beverage tax revenues. The EDA negotiates business license tax and food and beverage tax abatements

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

on an individual basis. The City has tax abatement agreements to a restaurant for opening and investing in location within the tourism zone. The abatements for the fiscal years ended June 30 were as follows:

Fiscal Year Ended	Amount of Taxes Abated
June 30, 2017	\$ 51,996
June 30, 2016	\$ 48,929
June 30, 2015	\$ 48,759
June 30, 2014	\$ 20,337

The EDA administers an Expansion/Relocation Cost Reduction (ERCR) Incentive program within the City of Newport News. The program is a customized incentive available to companies in targeted industries investing \$2.5 million or more in capital investment, machinery and tools and/or business personal property. The company must also create at least twenty-five (25) new full-time jobs meeting a minimum salary requirement. The City has tax abatement agreements with three entities as of June 30, 2017.

Industry	2014	2015	2016	2017
Automotive manufacturer	\$ 115,395	55,136	186,438	472,906
Industrial digital imaging	1,379,246	1,515,016	1,092,673	893,688
Food processor and distributor	12,568	34,365	46,983	65,053
	<u>\$ 1,507,209</u>	<u>1,604,517</u>	<u>1,326,094</u>	<u>1,431,647</u>

(16) Subsequent Events

Subsequent events have been analyzed through November 21, 2017 noting the following:

E/IDA

On August 14, 2017, the Authorities purchased the property at 2914 West Avenue in the amount of \$101,686 for downtown redevelopment initiatives.

On July 14, 2017, the E/IDA closed on the property located at 1300 Marshall Avenue known as the Chase Bag Property located in southeast Newport News. The E/IDA was the successful bidder at the June 14, 2017 auction with a successful bid of \$1,000,000 plus the required 10% buyer's premium of \$100,000 for a total of \$1,100,000.

In August 2017, the E/IDA issued on behalf of Riverside Healthcare Association, Inc. revenue refunding bonds in the amount not to exceed \$68,580,000 for the refinancing of the previously issued 2011 revenue

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2017

bonds issued to finance several projects in Newport News, James City County, Gloucester County and Essex County.

On August 13, 2017, the E/IDA refinanced the remaining balance of \$1,500,000 of its note on 809 Omni Boulevard with Bank of America with a five year fixed rate of 3.49% amortized over 10 years.

On October 6, 2017, the E/IDA, in association with a planned Ferguson Enterprises, Inc. expansion project, which includes approximately \$82.8 million in investment and 350 new jobs, has authorized an Amendment to the Second Amended and Restated Development Agreement between the EDA and Newport News Town Center. This amendment allows the EDA to pay the Developer, \$981,933, in exchange for the exclusive right to develop 11829 Canon Boulevard and, in addition, release to the EDA the rights to develop 760 Town Center Drive at no cost. Furthermore, to support the planned expansion, the EDA authorized an Expansion/Relocation Cost Reduction Enterprise Zone Incentive Agreement with Ferguson Enterprises.

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CITY OF NEWPORT NEWS, VIRGINIA
Required Supplementary Information
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budget Basis)
Year ended June 30, 2017

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Revenues from local sources:				
General property taxes:				
Real property taxes	\$ 180,281,541	180,281,541	177,064,737	(3,216,804)
Real and personal public service corporation property taxes	6,473,155	6,473,155	6,621,725	148,570
Personal property taxes	53,664,000	53,664,000	55,433,217	1,769,217
Machinery and tools taxes	21,000,000	21,000,000	20,500,671	(499,329)
Penalties and interest	1,266,000	1,266,000	1,509,724	243,724
Total general property taxes	<u>262,684,696</u>	<u>262,684,696</u>	<u>261,130,074</u>	<u>(1,554,622)</u>
Other local taxes:				
E-911 service revenue	739,926	739,926	722,114	(17,812)
Telecom sales taxes	11,700,000	11,700,000	11,012,699	(687,301)
Local sales and use taxes	24,945,000	24,945,000	24,553,589	(391,411)
Consumers' utility taxes	6,300,000	6,300,000	6,043,252	(256,748)
Consumption tax	730,000	730,000	904,868	174,868
Business license taxes	17,370,000	17,370,000	16,762,176	(607,824)
Rental car taxes	1,218,000	1,218,000	1,144,248	(73,752)
Motor vehicle license	4,150,000	4,150,000	4,131,204	(18,796)
Bank stock taxes	741,000	741,000	1,012,668	271,668
Taxes on recordation and wills	1,600,000	1,600,000	1,598,418	(1,582)
Tobacco taxes	5,000,000	5,000,000	4,925,919	(74,081)
Hotel and motel room taxes	4,445,001	4,445,001	4,278,009	(166,992)
Restaurant food taxes	24,800,000	24,800,000	25,757,894	957,894
Tourism zone taxes	85,894	85,894	61,910	(23,984)
Amusement taxes	921,590	921,590	980,953	59,363
Total other local taxes	<u>104,746,411</u>	<u>104,746,411</u>	<u>103,889,921</u>	<u>(856,490)</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	50,000	50,000	43,238	(6,762)
Permits and other licenses	3,681,577	3,681,577	3,680,974	(603)
Total permits, privilege fees, and regulatory licenses	<u>3,731,577</u>	<u>3,731,577</u>	<u>3,724,212</u>	<u>(7,365)</u>
Fines and forfeitures	<u>1,724,500</u>	<u>1,724,500</u>	<u>1,727,312</u>	<u>2,812</u>
Revenue from use of money and property:				
Revenue from use of money	429,825	429,825	803,632	373,807
Revenue from use of property	<u>1,947,660</u>	<u>1,947,660</u>	<u>1,915,157</u>	<u>(32,503)</u>
Total revenue from use of money and property	<u>2,377,485</u>	<u>2,377,485</u>	<u>2,718,789</u>	<u>341,304</u>
Charges for services:				
Court costs	989,097	989,097	944,205	(44,892)
Law enforcement and traffic control	146,031	146,031	83,313	(62,718)
Fire and rescue services	4,145,825	4,145,825	4,422,686	276,861
Information Technology	1,775,115	1,775,115	1,775,015	(100)
Parks and recreation	7,243,732	7,243,732	7,433,879	190,147
Cultural enrichment	234,667	234,667	172,104	(62,563)
Self-insurance premiums	2,293,706	2,293,706	2,138,119	(155,587)
Library	61,000	61,000	47,943	(13,057)
Planning and community development	3,900	3,900	828	(3,072)
Indirect costs	4,955,764	4,955,764	4,955,764	-
Animal services	42,400	42,400	42,394	(6)
Applied research center	283,356	283,356	283,356	-
Total charges for services	<u>\$ 22,174,593</u>	<u>22,174,593</u>	<u>22,299,606</u>	<u>125,013</u>

(continued)

CITY OF NEWPORT NEWS, VIRGINIA
Required Supplementary Information
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budget Basis)
Year ended June 30, 2017

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Recovered costs:				
Health department	\$ 25,754	25,754	112,727	86,973
Juvenile detention home	4,140,457	4,140,457	4,316,944	176,487
City jail	1,966,588	1,966,588	1,151,931	(814,657)
Sewer assessments - debt service	19,000	19,000	99,556	80,556
Total recovered costs	<u>6,151,799</u>	<u>6,151,799</u>	<u>5,681,158</u>	<u>(470,641)</u>
Miscellaneous revenues:				
Payments in lieu of taxes	2,519,521	2,519,521	2,484,835	(34,686)
Miscellaneous	2,938,436	2,938,436	2,796,706	(141,730)
Total miscellaneous revenues	<u>5,457,957</u>	<u>5,457,957</u>	<u>5,281,541</u>	<u>(176,416)</u>
Total revenues from local sources	<u>409,049,018</u>	<u>409,049,018</u>	<u>406,452,613</u>	<u>(2,596,405)</u>
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' taxes	67,619	67,619	62,346	(5,273)
Mobile home titling taxes	50,000	50,000	44,837	(5,163)
Tax on deeds	450,000	450,000	407,566	(42,434)
State rebate – recording tax	460,000	460,000	492,527	32,527
DCJP grants for law enforcement	8,742,111	8,742,111	9,023,580	281,469
Total noncategorical aid	<u>9,769,730</u>	<u>9,769,730</u>	<u>10,030,856</u>	<u>261,126</u>
Shared expenses:				
Technology trust fund	37,411	37,411	37,411	-
Commonwealth's Attorney	1,912,732	1,912,732	1,840,748	(71,984)
Sheriff	7,511,904	7,511,904	7,300,629	(211,275)
Commissioner of the Revenue	380,454	380,454	392,488	12,034
Treasurer	357,707	357,707	330,462	(27,245)
Registrar/Electoral Board	57,667	57,667	59,034	1,367
Total shared expenses	<u>10,257,875</u>	<u>10,257,875</u>	<u>9,960,772</u>	<u>(297,103)</u>
Categorical aid:				
Welfare	23,184,815	23,184,815	24,294,140	1,109,325
Emergency medical service funds	155,000	155,000	-	(155,000)
Library	174,627	174,627	174,599	(28)
Other	-	-	22,338	22,338
Total categorical state aid	<u>23,514,442</u>	<u>23,514,442</u>	<u>24,491,077</u>	<u>976,635</u>
Total revenue from the Commonwealth	<u>43,542,047</u>	<u>43,542,047</u>	<u>44,482,705</u>	<u>940,658</u>
Other financing sources:				
Transfers from other funds	9,500,000	9,500,000	9,500,000	-
Transfers from fund balance	5,200,000	5,200,000	-	(5,200,000)
Total revenues	<u>\$ 467,291,065</u>	<u>467,291,065</u>	<u>460,435,318</u>	<u>(6,855,747)</u>

(continued)

CITY OF NEWPORT NEWS, VIRGINIA
Required Supplementary Information
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budget Basis)
Year ended June 30, 2017

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures:				
General government administration:				
Legislative:				
City Council	\$ 274,927	275,430	262,773	12,657
City Clerk	336,673	348,027	353,981	(5,954)
Total legislative	<u>611,600</u>	<u>623,457</u>	<u>616,754</u>	<u>6,703</u>
General and financial administration:				
City Manager	1,315,896	1,342,177	1,433,997	(91,820)
Human resources	1,133,066	1,135,507	1,121,522	13,985
Employee benefits	372,172	372,172	269,652	102,520
Medical services	67,006	67,006	44,379	22,627
City Attorney	1,816,401	1,861,160	1,909,519	(48,359)
Internal Auditor	539,078	551,651	559,010	(7,359)
Commissioner of the Revenue	2,562,188	2,570,745	2,293,280	277,465
Real Estate Assessor	1,622,791	1,652,931	1,553,787	99,144
City Treasurer	2,218,479	2,239,833	2,253,790	(13,957)
Finance	1,555,133	1,587,802	1,706,906	(119,104)
Budget and evaluation	684,083	684,111	613,175	70,936
Auto self-insurance	1,364,000	1,364,000	1,333,568	30,432
General liability self-insurance	1,794,000	1,794,000	1,608,901	185,099
Workers' compensation	3,170,000	3,170,000	2,815,663	354,337
Purchasing	1,153,145	1,155,337	1,266,682	(111,345)
Information technology	9,353,027	9,420,725	9,044,863	375,862
Total general and financial administration	<u>30,720,465</u>	<u>30,969,157</u>	<u>29,828,694</u>	<u>1,140,463</u>
Board of Elections - Registrar	<u>439,810</u>	<u>447,564</u>	<u>451,674</u>	<u>(4,110)</u>
Nondepartmental:				
Appointed boards	112,662	112,662	83,875	28,787
Community support	2,401,089	2,476,089	2,467,590	8,499
Contract community agencies	8,746,781	8,671,781	9,387,500	(715,719)
City development	41,057,097	39,397,127	35,879,092	3,518,035
Contractual services	2,118,534	1,927,384	1,693,956	233,428
Internal services	176,000	54,898	3,567	51,331
Machinery and equipment	971,000	968,701	703,954	264,747
Strategic priorities	1,997,000	1,997,000	1,940,491	56,509
Street lighting	500,400	500,400	765,681	(265,281)
Other	6,206,747	6,308,760	4,877,641	1,431,119
Total nondepartmental	<u>64,287,310</u>	<u>62,414,802</u>	<u>57,803,347</u>	<u>4,611,455</u>
Total general government administration	<u>96,059,185</u>	<u>94,454,980</u>	<u>88,700,469</u>	<u>5,754,511</u>
Judicial administration:				
Courts:				
Circuit Courts	475,918	475,918	457,815	18,103
District Courts	158,214	158,214	73,969	84,245
Office of the Magistrate	252,992	252,992	140,174	112,818
Juvenile/Domestic Relations Court	57,000	58,070	67,227	(9,157)
Clerk of the Circuit Court	1,502,097	1,575,180	1,551,557	23,623
Court services	476,742	476,793	488,396	(11,603)
Total courts	<u>2,922,963</u>	<u>2,997,167</u>	<u>2,779,138</u>	<u>218,029</u>
Commonwealth's Attorney	<u>3,883,150</u>	<u>3,885,419</u>	<u>3,954,869</u>	<u>(69,450)</u>
Total judicial administration	<u>\$ 6,806,113</u>	<u>6,882,586</u>	<u>6,734,007</u>	<u>148,579</u>

(continued)

CITY OF NEWPORT NEWS, VIRGINIA
Required Supplementary Information
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budget Basis)
Year ended June 30, 2017

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 45,359,810	45,378,415	47,252,938	(1,874,523)
Emergency communications	340,307	340,387	310,148	30,239
Total law enforcement and traffic control	<u>45,700,117</u>	<u>45,718,802</u>	<u>47,563,086</u>	<u>(1,844,284)</u>
Fire and rescue services:				
Fire department	29,411,501	29,930,038	32,797,382	(2,867,344)
Ambulance and rescue service	2,141,006	2,141,006	2,175,646	(34,640)
Total fire and rescue services	<u>31,552,507</u>	<u>32,071,044</u>	<u>34,973,028</u>	<u>(2,901,984)</u>
Correction and detention:				
Sheriff	21,097,820	21,415,564	21,605,885	(190,321)
Juvenile detention	7,937,636	8,137,631	8,180,625	(42,994)
Total correction and detention	<u>29,035,456</u>	<u>29,553,195</u>	<u>29,786,510</u>	<u>(233,315)</u>
Inspection – codes compliance	2,976,830	2,978,799	2,876,697	102,102
Total public safety	<u>109,264,910</u>	<u>110,321,840</u>	<u>115,199,321</u>	<u>(4,877,481)</u>
Public works:				
Engineering:				
Administration	176,306	285,672	244,020	41,652
Civil services	461,565	697,058	731,554	(34,496)
Technical support	361,846	377,961	354,987	22,974
Site & subdivision services	1,134,227	894,129	868,979	25,150
Transportation services	78,659	68,900	11,368	57,532
Total engineering	<u>2,212,603</u>	<u>2,323,720</u>	<u>2,210,908</u>	<u>112,812</u>
Public works administration	135,812	439,208	928,902	(489,694)
Maintenance of highways, streets, bridges, and sidewalks	800,323	430,754	50,316	380,438
Maintenance of general buildings and grounds	10,472,684	10,554,941	10,580,725	(25,784)
Total public works	<u>13,621,422</u>	<u>13,748,623</u>	<u>13,770,851</u>	<u>(22,228)</u>
Health and welfare:				
Health -				
Medical services	3,522,327	3,576,352	3,571,803	4,549
Welfare:				
Social services administration	6,564,784	6,565,241	6,429,388	135,853
Financial services	8,553,001	8,558,179	7,527,662	1,030,517
Social work services	12,758,952	12,764,025	13,171,458	(407,433)
Healthy families	1,870,473	1,896,389	2,035,785	(139,396)
Employment service program	2,138,423	2,141,411	1,985,546	155,865
CSA administration	298,770	298,770	335,491	(36,721)
Fuel assistance	27,903	27,903	22,793	5,110
Homeless family services	223,716	223,716	254,801	(31,085)
Cooperative extension	209,911	210,594	205,642	4,952
Total welfare	<u>32,645,933</u>	<u>32,686,228</u>	<u>31,968,566</u>	<u>717,662</u>
Total health and welfare	<u>\$ 36,168,260</u>	<u>36,262,580</u>	<u>35,540,369</u>	<u>722,211</u>

(continued)

CITY OF NEWPORT NEWS, VIRGINIA
Required Supplementary Information
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budget Basis)
Year ended June 30, 2017

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Parks, recreation and cultural:				
Parks and recreation:				
Administration	\$ 6,001,101	6,194,993	5,912,853	282,140
Recreation division	2,647,065	2,661,648	2,572,046	89,602
Parks division	3,500,813	3,500,813	3,921,867	(421,054)
Recreation classes	4,634,287	4,634,287	4,826,685	(192,398)
Golf course	1,680,000	1,680,000	1,820,661	(140,661)
Leeward Marina	284,000	284,000	260,677	23,323
Festival support	236,016	265,505	392,486	(126,981)
Tourism, promotion and development	1,426,000	1,426,000	1,696,424	(270,424)
Animal services	599,280	600,395	604,627	(4,232)
Total parks and recreation	<u>21,008,562</u>	<u>21,247,641</u>	<u>22,008,326</u>	<u>(760,685)</u>
Cultural enrichment – museum	1,114,000	1,114,000	1,193,856	(79,856)
Library	4,526,332	4,528,179	4,488,501	39,678
Total parks, recreation and cultural	<u>26,648,894</u>	<u>26,889,820</u>	<u>27,690,683</u>	<u>(800,863)</u>
Community development:				
Planning and community development:				
Development	1,254,800	1,265,357	1,172,038	93,319
Planning	1,144,931	1,147,671	1,151,987	(4,316)
Communications	1,668,384	1,670,442	1,583,175	87,267
Economic development	4,168,774	4,161,774	4,167,370	(5,596)
Total community development	<u>8,236,889</u>	<u>8,245,244</u>	<u>8,074,570</u>	<u>170,674</u>
Education:				
General fund transfer to Public Schools	118,300,000	118,300,000	118,300,000	-
Capital projects' transfer to Public Schools	2,000,000	2,000,000	2,000,000	-
Total educations	<u>120,300,000</u>	<u>120,300,000</u>	<u>120,300,000</u>	<u>-</u>
Transfers to other funds:				
Debt service	36,604,640	36,604,640	35,070,603	1,534,037
Capital projects	9,522,171	9,522,171	8,522,171	1,000,000
Other	4,058,581	4,058,581	3,728,581	330,000
Total transfers to other funds	<u>50,185,392</u>	<u>50,185,392</u>	<u>47,321,355</u>	<u>2,864,037</u>
Total expenditures and transfers to other funds	<u>\$ 467,291,065</u>	<u>467,291,065</u>	<u>463,331,625</u>	<u>3,959,440</u>
Deficiency of revenues under expenditures	<u>-</u>	<u>-</u>	<u>(2,896,307)</u>	<u>(2,896,307)</u>
Less encumbrances outstanding at June 30, 2016 expended or canceled at June 30, 2017			(3,596,224)	
Add encumbrances outstanding at June 30, 2017			3,754,190	
FY 2017 deficit			(2,738,341)	
Fund balance at beginning of year			94,571,606	
Fund balance at end of year			<u>\$ 91,833,265</u>	

See accompanying notes to required supplementary information

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CITY OF NEWPORT NEWS, VIRGINIA
Required Supplementary Information
OPEB Fund
Schedule of Employer Contributions (Unaudited)
(in millions)
Year ended June 30, 2017

Newport News Employees' OPEB Fund (in millions):

Fiscal year end		Annual required contribution	Actual contribution	Percentage contributed
2017	City	\$ 11.5	\$ 8.2	71%
2016	City	12.7	8.9	70%
2015	City	12.5	10.2	82%
2014	City	12.4	10.2	82%
2013	City	16.9	10.5	62%
2012	City	17.9	10.9	61%
2011	City	18.3	11.8	64%
2010	City	13.4	12.1	90%

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability			
Service costs	\$ 9,467,439	9,926,558	10,534,763
Interest	91,489,549	88,917,067	86,803,765
Differences between expected and actual experience	6,473,172	6,665,024	-
Changes of assumptions	-	-	-
Benefit payments, including refunds of member contributions	(72,016,569)	(69,527,978)	(67,393,918)
Net change in total pension Liability	35,413,591	35,980,671	29,944,610
Total pension liability - beginning	1,245,750,531	1,209,769,860	1,179,825,250
Total pension liability - ending	\$ 1,281,164,122	1,245,750,531	1,209,769,860
Plan Fiduciary net position			
Contributions-employer	\$ 39,005,899	33,258,275	29,364,826
Contributions-member	6,416,136	6,738,148	6,558,611
Net investment income	(7,465,822)	26,194,662	113,205,029
Benefit payments, including refunds of member contributions	(72,016,569)	(69,527,978)	(67,393,918)
Administrative expense	(921,181)	(1,003,673)	(866,517)
Net change in plan fiduciary net position	\$ (34,981,537)	(4,340,566)	80,868,031
Plan Fiduciary net position - beginning	850,640,235	854,980,801	774,112,770
Plan Fiduciary net position - ending	\$ 815,658,698	850,640,235	854,980,801
Net Pension liability ending	\$ 465,505,424	395,110,296	354,789,059
Plan fiduciary net position as a percentage of the total pension liability	63.67%	68.28%	70.67%
Covered employee payroll	\$ 118,639,692	123,619,906	129,912,288
Net position liability as a percentage of covered employee payroll	392.37%	319.62%	273.10%

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability			
Service costs	\$ 4,831,751	4,219,577	3,376,352
Interest	1,000,116	702,834	441,527
Differences between expected and actual experience	(127,774)	(522,034)	-
Benefit payments, including refunds of member contributions	(194,963)	(112,015)	(57,843)
Net change in total pension Liability	5,509,130	4,288,362	3,760,036
Total pension liability - beginning	14,384,854	10,096,492	6,336,456
Total pension liability - ending	\$ 19,893,984	14,384,854	10,096,492
Plan Fiduciary net position			
Contributions-employer	\$ 2,754,620	2,346,626	3,039,422
Contributions-member	2,326,164	2,054,662	1,685,840
Net investment income	485,326	760,402	1,589,581
Benefit payments, including refunds of member contributions	(194,963)	(112,015)	(57,843)
Administrative expense	(8,716)	(5,937)	(4,461)
Other	(153)	(177)	83
Net change in plan fiduciary net position	\$ 5,362,278	5,043,561	6,252,622
Plan Fiduciary net position - beginning	19,080,770	14,037,209	7,784,587
Plan Fiduciary net position - ending	\$ 24,443,048	19,080,770	14,037,209
Net Pension asset ending	\$ (4,549,064)	(4,695,916)	(3,940,717)
Plan fiduciary net position as a percentage of the total pension asset	122.87%	132.64%	139.03%
Covered employee payroll	\$ 55,753,786	47,926,329	36,397,255
Net position asset as a percentage of covered employee payroll	8.16%	9.80%	10.83%

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

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

	<u>2017</u>
Total OPEB Liability	
Service costs	\$ 811,867
Interest	8,837,567
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(9,512,163)
Net change in total OPEB liability	<u>137,271</u>
Total OPEB liability - beginning	122,105,738
Total OPEB liability - ending	<u><u>\$ 122,243,009</u></u>
 Plan Fiduciary net position	
Contributions-employer	\$ 8,240,000
Contributions-member	-
Net investment income	5,402,335
Benefit payments, including refunds of member contributions	(9,512,163)
Administrative expense	(60,497)
Net change in plan fiduciary net position	<u>\$ 4,069,675</u>
Plan Fiduciary net position - beginning	27,461,851
Plan Fiduciary net position - ending	<u><u>\$ 31,531,526</u></u>
 Net OPEB liability - ending	<u><u>\$ 90,711,483</u></u>
 Plan fiduciary net position as a percentage of the total OPEB liability	25.79%
 Covered employee payroll	\$ 100,618,959
Net OPEB liability as a percentage of covered employee payroll	90.15%

Note: This schedule is intended to show information for 10 years. Since 2017 is the first year of this presentation, only one year is shown. However, additional years will be included as they become available.

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

		2017	2016	2015	2014
Actuarially determined contribution	\$	39,262	39,154	40,394	40,628
Contributions in relation to the actuarially determined contribution		39,136	39,006	33,258	29,365
Contribution deficiency	\$	<u>126</u>	<u>148</u>	<u>7,136</u>	<u>11,263</u>
Covered-employee payroll	\$	113,303	118,640	123,620	129,912
Contributions as a percentage of Covered-employee payroll		34.54%	32.88%	26.90%	22.60%

Schedule of City Contributions VRS
(Dollar amounts in thousands)

		2017	2016	2015
Contractually required contribution	\$	2,768	2,755	2,347
Contributions in relation to the contractually required contribution		2,768	2,755	2,347
Contribution excess	\$	<u>-</u>	<u>-</u>	<u>-</u>
Covered-employee payroll	\$	55,754	47,926	36,397
Contributions as a percentage of Covered-employee payroll		4.96%	5.75%	6.45%

***Schedule of City Contributions OPEB**
(Dollar amounts in thousands)

		2017
Contractually determined contribution	\$	8,240
Contributions in relation to the contractually determined contribution		8,240
Contribution deficiency	\$	<u>-</u>
Covered-employee payroll	\$	100,619
Contributions as a percentage of Covered-employee payroll		8.19%

*See footnote 9 for assumptions used

Note: These schedules are intended to show information for 10 years. However, additional years will be included as they become available. 2014 data for VRS was unavailable.

CITY OF NEWPORT NEWS, VIRGINIA

Required Supplementary Information

Schedule of Investment Returns

Year Ended June 30,

	<u>2017</u>
Annual Money-weighted Rate of Return, Net of Investment Fees	21.23%

Schedule of Employers' Net OPEB Liability and Related Ratios*

Year Ended June 30,

	<u>2017</u>
Total OPEB liability	\$ 122,243,009
Plan fiduciary net position	<u>31,531,526</u>
Employers' net OPEB liability	<u><u>\$ 90,711,483</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	25.79%
Covered employee payroll	\$ 100,618,959
Employers' net OPEB liability as a percentage of covered employee payroll	90.15%

*See footnote 9 for assumptions used

Note: These schedules are intended to show information for 10 years. Since 2017 is the first year of this presentation, only one year is shown. However, additional years will be included as they become available.

CITY OF NEWPORT NEWS, VIRGINIA
Required Supplementary Information
Schedule of Funding Progress (unaudited)
Year ended June 30, 2017

Newport News Employees' OPEB Fund (in millions):

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2017	\$ 32	\$ 116	\$ (84)	27%	\$ 96	-88.3%
June 30, 2016	27	184	(157)	15%	101	-155.1%
June 30, 2015	27	178	(151)	15%	105	-142.8%
June 30, 2014	25	176	(151)	14%	110	-137.4%
June 30, 2013	21	173	(152)	12%	115	-132.2%
June 30, 2012	16	217	(201)	7%	114	-177.2%
June 30, 2011	14	232	(218)	6%	119	-183.7%
June 30, 2010	10	237	(227)	4%	125	-181.7%

Newport News Line of Duty Plan (in thousands):

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
July 1, 2017	\$ 2,508	\$ 8,035	\$ (5,527)	31%	\$ 59,929	-9.2%
July 1, 2016	2,539	8,021	(5,482)	32%	59,196	-9.3%
July 1, 2015	-	9,985	(9,985)	0%	56,418	-17.7%
July 1, 2014	-	8,686	(8,686)	0%	55,351	-15.7%
July 1, 2013	-	8,464	(8,464)	0%	53,508	-15.8%
July 1, 2012	-	7,703	(7,703)	0%	51,950	-14.8%

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

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Unfunded accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
06/30/2017	\$ 23.1	\$ 99.5	\$ (76.4)	23.2%	\$ 111.3	-68.6%
06/30/2016	18.3	99.0	(80.7)	18.5%	105.7	-76.3%
06/30/2015	15.8	93.0	(77.2)	17.0%	111.5	-69.2%
06/30/2014	13.8	104.3	(90.5)	13.2%	119.8	-75.5%
06/30/2013	11.0	101.4	(90.4)	10.8%	128.6	-70.3%
06/30/2012	8.8	83.8	(75.0)	10.5%	136.7	-54.9%
06/30/2011	6.4	71.8	(65.4)	8.9%	147.0	-44.5%
06/30/2010	3.2	132.7	(129.5)	2.4%	158.2	-81.9%
06/30/2009	1.6	187.8	(186.2)	0.9%	181.0	-102.9%
06/30/2008	2.7	180.5	(177.8)	1.5%	184.2	-96.5%

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Required Supplementary Information

Year ended June 30, 2017

(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. There were supplemental appropriations made during 2017 for the following reasons: (1) grant matching, (2) funding to meet the increase in operating expenses.

(2) Legally Adopted Budgets

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

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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Required Supplementary Information

Year ended June 30, 2017

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

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

(3) Encumbrances

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

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CITY OF NEWPORT NEWS, VIRGINIA

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017

	Special Revenue							
	Community development	Street maintenance	Economic development	Law library	Special events	Stormwater	Solid waste	Wastewater
Assets								
Cash and cash equivalents	\$ -	-	1,155,443	180,002	-	9,749,013	2,724,642	1,297,982
Restricted cash	-	-	-	-	-	-	-	-
Accounts receivable, net	-	-	-	9,048	32,500	800,460	1,456,853	1,093,204
Receivable from other governments:								
Virginia	40,369	-	-	-	-	-	-	-
Federal	185,414	-	-	-	-	-	-	-
Advances to other funds	-	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-	-
Total assets	\$ 225,783	-	1,155,443	189,050	32,500	10,549,473	4,181,495	2,391,186
Liabilities								
Accounts payable	\$ 86,553	-	2,753	1,348	45,794	721,523	415,678	276,107
Accrued liabilities	1,198	-	-	2,369	-	481,710	154,679	219,478
Unearned revenues	-	-	-	-	-	-	33,112	-
Advances from other funds	-	-	-	-	60,765	-	-	-
Advances from major governmental funds	138,032	-	-	-	-	-	-	-
Total liabilities	225,783	-	2,753	3,717	106,559	1,203,233	603,469	495,585
Deferred Inflows of Resources								
Unavailable revenue-stormwater fees	-	-	-	-	-	635,767	-	-
Fund Balances								
Restricted	-	-	-	25	-	8,710,473	3,578,026	1,895,601
Committed	-	-	1,152,690	185,308	11,386	-	-	-
Unassigned	-	-	-	-	(85,445)	-	-	-
Total fund balances	-	-	1,152,690	185,333	(74,059)	8,710,473	3,578,026	1,895,601
Total liabilities, deferred inflows and fund balances	\$ 225,783	-	1,155,443	189,050	32,500	10,549,473	4,181,495	2,391,186

(continued)

CITY OF NEWPORT NEWS, VIRGINIA

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017

	Special Revenue				Capital Projects		
	Comprehensive Services Act	Criminal Justice Academy	Animal shelter	Other federal and state	General capital improvements	Other federal and state	Total nonmajor
Assets							
Cash and cash equivalents	\$ -	148,705	200	1,624,733	12,329,187	-	29,209,907
Restricted cash	-	-	-	-	-	687,028	687,028
Accounts receivable, net	1,089	-	561	-	525,532	-	3,919,247
Receivable from other governments:							
Virginia	1,164,934	-	-	336,019	609,255	4,367,112	6,517,689
Federal	-	-	-	530,862	-	3,071,033	3,787,309
Advances to other fund	-	-	-	-	5,475,408	-	5,475,408
Inventory	-	-	2,343	-	-	-	2,343
Total assets	\$ 1,166,023	148,705	3,104	2,491,614	18,939,382	8,125,173	49,598,931
Liabilities							
Accounts payable	\$ 901,714	14,810	46,193	150,626	588,188	1,578,143	4,829,430
Accrued liabilities	-	-	39,635	37,429	259,251	-	1,195,749
Unearned revenues	-	-	-	-	-	-	33,112
Advances from other fund	-	-	-	-	-	5,414,643	5,475,408
Advances from major governmental funds	278,604	-	185,603	341,352	-	-	943,591
Total liabilities	1,180,318	14,810	271,431	529,407	847,439	6,992,786	12,477,290
Deferred Inflows of Resources							
Unavailable revenue-stormwater fees	-	-	-	-	-	-	635,767
Fund Balances							
Restricted	-	-	-	1,962,207	-	1,132,387	17,278,719
Committed	-	133,895	-	-	18,091,943	-	19,575,222
Unassigned	(14,295)	-	(268,327)	-	-	-	(368,067)
Total fund balances	(14,295)	133,895	(268,327)	1,962,207	18,091,943	1,132,387	36,485,874
Total liabilities, deferred inflows and fund balances	\$ 1,166,023	148,705	3,104	2,491,614	18,939,382	8,125,173	49,598,931

CITY OF NEWPORT NEWS, VIRGINIA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

Year ended June 30, 2017

	Special Revenue							
	Community development	Street maintenance	Economic development	Law library	Special events	Stormwater	Solid waste	Wastewater
Revenues:								
Intergovernmental:								
Local	\$ -	-	-	-	-	-	-	-
Virginia	-	16,886,861	-	-	-	-	26,425	-
Federal	1,520,571	-	-	-	-	-	-	-
Charges for services	-	-	-	110,558	-	20,478,391	14,486,575	20,781,898
Interest and rents	-	-	158,646	-	-	125,269	14,321	5,090
Sale of property	-	-	2,000	-	-	-	-	-
Local fees and contributions	-	-	-	-	111,000	-	-	-
Miscellaneous	250	-	3,000	-	-	-	5,225	-
Total revenues	<u>1,520,821</u>	<u>16,886,861</u>	<u>163,646</u>	<u>110,558</u>	<u>111,000</u>	<u>20,603,660</u>	<u>14,532,546</u>	<u>20,786,988</u>
Expenditures:								
Current operating:								
General government	-	-	-	99,211	-	-	-	-
Judicial administration	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	-
Public works	-	16,886,861	-	-	-	16,780,643	12,718,068	13,343,692
Health and welfare	-	-	-	-	-	-	-	-
Education	-	-	-	-	-	-	-	-
Parks, recreation, and culture	-	-	-	-	745,143	-	-	-
Community development	1,520,821	-	200,250	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Total expenditures	<u>1,520,821</u>	<u>16,886,861</u>	<u>200,250</u>	<u>99,211</u>	<u>745,143</u>	<u>16,780,643</u>	<u>12,718,068</u>	<u>13,343,692</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(36,604)</u>	<u>11,347</u>	<u>(634,143)</u>	<u>3,823,017</u>	<u>1,814,478</u>	<u>7,443,296</u>
Other financing sources (uses):								
Transfers in	-	-	-	-	560,084	-	-	-
Transfers out	-	-	-	-	-	(4,193,935)	(952,190)	(6,630,531)
Total other financing sources (uses), net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>560,084</u>	<u>(4,193,935)</u>	<u>(952,190)</u>	<u>(6,630,531)</u>
Net changes in fund balances	<u>-</u>	<u>-</u>	<u>(36,604)</u>	<u>11,347</u>	<u>(74,059)</u>	<u>(370,918)</u>	<u>862,288</u>	<u>812,765</u>
Fund balances at June 30, 2016	<u>-</u>	<u>-</u>	<u>1,189,294</u>	<u>173,986</u>	<u>-</u>	<u>9,081,391</u>	<u>2,715,738</u>	<u>1,082,836</u>
Fund balances at June 30, 2017	<u>\$ -</u>	<u>-</u>	<u>1,152,690</u>	<u>185,333</u>	<u>(74,059)</u>	<u>8,710,473</u>	<u>3,578,026</u>	<u>1,895,601</u>

(continued)

CITY OF NEWPORT NEWS, VIRGINIA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended June 30, 2017

	Special Revenue				Capital Projects		
	Comprehensive Services Act	Criminal Justice Academy	Animal shelter	Other federal and state	General capital improvements	Other federal and state	Total nonmajor
Revenues:							
Intergovernmental:							
Local	\$ -	-	1,136,092	472,564	567,128	-	2,175,784
Virginia	4,548,677	-	-	1,753,043	609,255	8,790,345	32,614,606
Federal	290,701	-	-	2,051,592	779	4,559,400	8,423,043
Charges for services	-	110,649	122,303	-	-	-	56,090,374
Interest and rents	-	-	-	7,423	20,998	14,708	346,455
Sale of Property	-	-	-	-	-	-	2,000
Local fees and contributions	-	-	-	-	525,333	-	636,333
Miscellaneous	-	-	12,780	-	-	-	21,255
Total revenues	<u>4,839,378</u>	<u>110,649</u>	<u>1,271,175</u>	<u>4,284,622</u>	<u>1,723,493</u>	<u>13,364,453</u>	<u>100,309,850</u>
Expenditures:							
Current operating:							
General government	-	-	-	-	-	-	99,211
Judicial administration	-	-	-	493,596	-	-	493,596
Public safety	-	174,964	-	3,235,802	-	-	3,410,766
Public works	-	-	-	29,013	-	-	59,758,277
Health and welfare	6,747,240	-	-	400,750	-	-	7,147,990
Education	-	-	-	-	2,000,000	-	2,000,000
Parks, recreation, and culture	-	-	1,677,161	22,259	-	-	2,444,563
Community development	-	-	-	108,642	-	-	1,829,713
Capital outlay	-	-	-	-	10,974,929	14,601,975	25,576,904
Total expenditures	<u>6,747,240</u>	<u>174,964</u>	<u>1,677,161</u>	<u>4,290,062</u>	<u>12,974,929</u>	<u>14,601,975</u>	<u>102,761,020</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,907,862)</u>	<u>(64,315)</u>	<u>(405,986)</u>	<u>(5,440)</u>	<u>(11,251,436)</u>	<u>(1,237,522)</u>	<u>(2,451,170)</u>
Other financing sources (uses):							
Transfers in	2,040,247	-	1,128,250	-	10,522,171	-	14,250,752
Transfers out	-	-	(707,570)	-	(390,619)	-	(12,874,845)
Total other financing sources (uses), net	<u>2,040,247</u>	<u>-</u>	<u>420,680</u>	<u>-</u>	<u>10,131,552</u>	<u>-</u>	<u>1,375,907</u>
Net changes in fund balances	<u>132,385</u>	<u>(64,315)</u>	<u>14,694</u>	<u>(5,440)</u>	<u>(1,119,884)</u>	<u>(1,237,522)</u>	<u>(1,075,263)</u>
Fund balances at June 30, 2016	<u>(146,680)</u>	<u>198,210</u>	<u>(283,021)</u>	<u>1,967,647</u>	<u>19,211,827</u>	<u>2,369,909</u>	<u>37,561,137</u>
Fund balances at June 30, 2017	<u>\$ (14,295)</u>	<u>133,895</u>	<u>(268,327)</u>	<u>1,962,207</u>	<u>18,091,943</u>	<u>1,132,387</u>	<u>36,485,874</u>

CITY OF NEWPORT NEWS, VIRGINIA
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
Special Revenue Funds
Year ended June 30, 2017

	Street Maintenance				Economic Development				Law Library				Stormwater			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
Revenues:																
Intergovernmental:																
Local	\$ -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Virginia	16,584,585	16,886,861	16,886,861	-	-	-	-	-	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-	117,867	132,000	110,558	(21,442)	21,836,421	21,836,421	20,478,391	(1,358,030)
Sale of property	-	-	-	-	10,000	10,000	2,000	(8,000)	-	-	-	-	-	-	-	-
Interest and rents	-	-	-	-	159,840	159,840	158,646	(1,194)	-	-	-	-	21,051	21,051	125,269	104,218
Miscellaneous	-	-	-	-	60	60	3,000	2,940	14,133	-	-	-	-	-	-	-
Total revenues	16,584,585	16,886,861	16,886,861	-	169,900	169,900	163,646	(6,254)	132,000	132,000	110,558	(21,442)	21,857,472	21,857,472	20,603,660	(1,253,812)
Expenditures:																
Current:																
General government	-	-	-	-	-	-	-	-	132,000	132,000	99,211	32,789	-	-	-	-
Public works	16,584,585	16,886,861	16,886,861	-	-	-	-	-	-	-	-	-	17,663,537	20,062,582	16,780,643	3,281,939
Parks, recreation, and culture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Community development	-	-	-	-	169,900	170,448	200,250	(29,802)	-	-	-	-	-	-	-	-
Total expenditures	16,584,585	16,886,861	16,886,861	-	169,900	170,448	200,250	(29,802)	132,000	132,000	99,211	32,789	17,663,537	20,062,582	16,780,643	3,281,939
Transfers In	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers Out	-	-	-	-	-	-	-	-	-	-	-	-	4,193,935	4,193,935	4,193,935	-
Excess (deficiency) of revenues over (under) expenditures	\$ -	-	-	-	-	(548)	(36,604)	(36,056)	-	-	11,347	11,347	-	(2,399,045)	(370,918)	2,028,127
Fund balances at July 1, 2016			-				1,189,294				173,986				9,081,391	
Fund balances at June 30, 2017		\$ -				\$ 1,152,690				\$ 185,333				\$ 8,710,473		

(continued)

CITY OF NEWPORT NEWS, VIRGINIA
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
Special Revenue Funds
Year ended June 30, 2017

	Solid Waste				Wastewater				Animal Shelter				Totals			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
Revenues:																
Intergovernmental:																
Local	\$ -	-	-	-	-	-	-	-	1,136,093	1,136,093	1,136,092	(1)	1,136,093	1,136,093	1,136,092	(1)
Virginia	26,500	26,500	26,425	(75)	-	-	-	-	-	-	-	-	16,611,085	16,913,361	16,913,286	(75)
Charges for services	14,908,500	14,908,500	14,486,575	(421,925)	21,797,000	21,797,000	20,781,898	(1,015,102)	1,253,475	1,253,475	122,303	(1,131,172)	59,913,263	59,927,396	55,979,725	(3,947,671)
Sale of Property	-	-	-	-	-	-	-	-	-	-	-	-	10,000	10,000	2,000	(8,000)
Interest and rents	-	-	14,321	14,321	-	-	5,090	5,090	-	-	-	-	180,891	180,891	303,326	122,435
Miscellaneous	8,000	8,000	5,224	(2,776)	-	-	-	-	14,732	14,732	12,780	(1,952)	36,925	22,792	21,004	(1,788)
Total revenues	14,943,000	14,943,000	14,532,546	(410,454)	21,797,000	21,797,000	20,786,988	(1,010,012)	2,404,300	2,404,300	1,271,175	(1,133,125)	77,888,257	78,190,533	74,355,434	(3,835,099)
Expenditures:																
Current:																
General government	-	-	-	-	-	-	-	-	-	-	-	-	132,000	132,000	99,211	32,789
Public works	13,990,810	14,046,179	12,718,068	1,328,111	15,134,020	15,740,149	13,343,692	2,396,457	-	-	-	-	63,372,952	66,735,771	59,729,265	7,006,506
Parks, recreation, and culture	-	-	-	-	-	-	-	-	2,404,300	2,404,300	1,677,161	727,139	2,404,300	2,404,300	1,677,161	727,139
Community development	-	-	-	-	-	-	-	-	-	-	-	-	169,900	170,448	200,250	(29,802)
Total expenditures	13,990,810	14,046,179	12,718,068	1,328,111	15,134,020	15,740,149	13,343,692	2,396,457	2,404,300	2,404,300	1,677,161	727,139	66,079,152	69,442,519	61,705,887	7,736,632
Transfers In	-	-	-	-	-	-	-	-	-	-	(1,128,250)	1,128,250	-	-	(1,128,250)	1,128,250
Transfers Out	952,190	952,190	952,190	-	6,662,980	6,662,980	6,630,531	32,449	-	-	707,570	(707,570)	11,809,105	11,809,105	12,484,226	(675,121)
Excess (deficiency) of revenues over (under) expenditures	\$ -	(55,369)	862,288	917,656	-	(606,129)	812,765	1,418,894	-	-	14,694	14,694	-	(3,061,091)	1,293,571	4,354,662
Fund balances at June 30, 2016			<u>2,715,738</u>				<u>1,082,836</u>				<u>(283,021)</u>				<u>13,960,224</u>	
Fund balances at June 30, 2017			<u>\$ 3,578,026</u>				<u>\$ 1,895,601</u>				<u>\$ (268,327)</u>				<u>\$ 15,253,796</u>	

CITY OF NEWPORT NEWS, VIRGINIA
Debt Service Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
Year ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Intergovernmental - Local	\$ 12,247,135	12,247,135	12,247,135	—
Miscellaneous	—	—	59,510	59,510
Total revenues	<u>12,247,135</u>	<u>12,247,135</u>	<u>12,306,645</u>	<u>59,510</u>
Expenditures:				
Debt service payments	<u>61,368,450</u>	<u>61,368,450</u>	<u>59,688,793</u>	<u>1,679,657</u>
Total expenditures	<u>61,368,450</u>	<u>61,368,450</u>	<u>59,688,793</u>	<u>1,679,657</u>
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(49,121,315)</u>	<u>(49,121,315)</u>	<u>(47,382,148)</u>	<u>1,739,167</u>
Other financing sources:				
Transfers in			<u>47,554,829</u>	
Net changes in fund balances			172,681	
Fund balances at June 30, 2016			<u>1,923,785</u>	
Fund balances at June 30, 2017			\$ <u><u>2,096,466</u></u>	

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CITY OF NEWPORT NEWS, VIRGINIA

Combining Statement of Net Position

Non-Major Component Units

June 30, 2017

Assets	Peninsula Airport Commission	Economic and Industrial Development Authorities	Totals
Current Assets:			
Cash and cash equivalents	\$ 309,861	8,472,362	8,782,223
Restricted cash and investments	—	12,353,065	12,353,065
Receivables:			
Accounts	539,315	312,242	851,557
Loans	1,350,637	63,239	1,413,876
Other	—	1,123,487	1,123,487
Inventories	63,407	—	63,407
Other current assets	103,245	—	103,245
Total current assets	<u>2,366,465</u>	<u>22,324,395</u>	<u>24,690,860</u>
Restricted cash and cash equivalents	2,104,485	2,071,512	4,175,997
Deferred project costs	154,573	—	154,573
Receivables:			
Loans	—	1,059,728	1,059,728
Notes	—	3,037,590	3,037,590
Accounts, Notes & Grants	—	5,607,169	5,607,169
Other	—	48,061	48,061
Land held for lease or resale	—	29,471,249	29,471,249
Property, plant and equipment:			
Land	6,604,658	—	6,604,658
Construction in progress	566,656	7,924,130	8,490,786
Infrastructure	—	2,543,500	2,543,500
Buildings	—	201,593,974	201,593,974
Improvements	—	19,232,150	19,232,150
Airfield	90,465,074	—	90,465,074
Terminal	89,264,845	—	89,264,845
Trailer park and rental units	1,548,885	—	1,548,885
Machinery and equipment	6,519,471	84,674	6,604,145
Accumulated depreciation	(91,448,521)	(63,108,373)	(154,556,894)
Total assets	<u>108,146,591</u>	<u>231,889,759</u>	<u>340,036,350</u>
Deferred Outflows			
Deferred pension contributions	425,152	—	425,152
Deferred amount on refunding	—	5,577,422	5,577,422
Total deferred outflows	<u>425,152</u>	<u>5,577,422</u>	<u>6,002,574</u>
Liabilities			
Current Liabilities:			
Accounts payable	425,249	729,730	1,154,979
Accrued liabilities	481,044	76,472	557,516
Deposits	29,171	—	29,171
Due to Primary Government	—	383	383
Bonds and Notes payable - due within one year	466,904	11,348,741	11,815,645
Total current liabilities	<u>1,402,368</u>	<u>12,155,326</u>	<u>13,557,694</u>
Due to Primary Government	—	10,155,374	10,155,374
Note payable	—	7,466,667	7,466,667
Bonds payable	8,001,956	80,264,964	88,266,920
Net pension liability	617,099	—	617,099
Other postemployment benefits liability	4,806,385	—	4,806,385
Total liabilities	<u>14,827,808</u>	<u>110,042,331</u>	<u>124,870,139</u>
Deferred Inflows			
Deferred revenues	—	4,806	4,806
Total deferred inflows	<u>—</u>	<u>4,806</u>	<u>4,806</u>
Net Position			
Net investment in capital assets	95,052,208	77,804,694	172,856,902
Restricted for:			
Capital projects	2,104,485	12,782,477	14,886,962
Capital loans	—	1,565,628	1,565,628
Unrestricted	(3,412,758)	35,267,245	31,854,487
Total net position	<u>\$ 93,743,935</u>	<u>127,420,044</u>	<u>221,163,979</u>

CITY OF NEWPORT NEWS, VIRGINIA

Combining Statement of Revenues, Expenses and Changes in Net Position

Non-Major Component Units

Year ended June 30, 2017

	Peninsula Airport Commission	Economic and Industrial Development Authorities	Totals
Operating revenues:			
Charges for services	\$ 7,757,651	–	7,757,651
Property rentals	–	8,679,419	8,679,419
Parking contributions	–	197,811	197,811
Land sales	–	7,067,601	7,067,601
Parking Authority revenues	–	754,612	754,612
Intergovernmental-Regional Air Service Enhancement Fund	–	78,232	78,232
Intergovernmental-Primary Government	–	12,441,230	12,441,230
Total operating revenues	<u>7,757,651</u>	<u>29,218,905</u>	<u>36,976,556</u>
Operating expenses:			
Cost of land sold	–	8,526,273	8,526,273
Personal services	3,994,966	743,300	4,738,266
Contractual services	2,362,682	6,294,070	8,656,752
Materials and supplies	745,926	428,287	1,174,213
Depreciation and amortization	7,178,188	5,145,481	12,323,669
Rental expenses	–	1,180,817	1,180,817
Miscellaneous	97,498	607,404	704,902
Total operating expenses	<u>14,379,260</u>	<u>22,925,632</u>	<u>37,304,892</u>
Operating income (loss)	<u>(6,621,609)</u>	<u>6,293,273</u>	<u>(328,336)</u>
Nonoperating revenues (expenses):			
Interest revenue	12,553	332,356	344,909
Bond and admin fee income	–	288,570	288,570
Interest expense	(389,934)	(3,653,800)	(4,043,734)
Letter of credit and trustee fees	–	(59,937)	(59,937)
Governor's opportunity grants	–	150,000	150,000
Governor's opportunity grants	–	(650,000)	(650,000)
Gain on disposal	4,866	–	4,866
Other revenues	–	1,678,222	1,678,222
OPEB expense	<u>(503,578)</u>	<u>–</u>	<u>(503,578)</u>
Nonoperating expenses, net	<u>(876,093)</u>	<u>(1,914,589)</u>	<u>(2,790,682)</u>
Capital contributions, net	<u>8,921,056</u>	<u>–</u>	<u>8,921,056</u>
Change in net position	<u>1,423,354</u>	<u>4,378,684</u>	<u>5,802,038</u>
Net position at June 30, 2016	<u>92,320,581</u>	<u>123,041,360</u>	<u>215,361,941</u>
Net position at June 30, 2017	<u>\$ 93,743,935</u>	<u>127,420,044</u>	<u>221,163,979</u>

CITY OF NEWPORT NEWS, VIRGINIA

Statement of Cash Flows
Non-Major Component Units
Year ended June 30, 2017

	Peninsula Airport Commission	Economic and Industrial Development Authorities	Totals
Cash flows from operating activities:			
Receipts from customers	\$ 7,827,847	22,368,458	30,196,305
Receipts from land sales and new loans, net of settlement charges	-	7,181,331	7,181,331
Payments to suppliers	(4,258,936)	(18,982,202)	(23,241,138)
Payments to employees	(3,994,966)	(743,300)	(4,738,266)
Net cash provided (used) by operating activities	<u>(426,055)</u>	<u>9,824,287</u>	<u>9,398,232</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(10,663,990)	(2,256,972)	(12,920,962)
Capital contributions, net	8,726,913	-	8,726,913
Proceeds from sale of assets	24,099	-	24,099
Repayment and retirement of industrial revenue bonds and notes payable	(449,553)	(12,059,147)	(12,508,700)
Proceeds from issuance of debt	-	10,640,000	10,640,000
Proceeds from Primary Government	-	283,356	283,356
Payment to Primary Government	-	(283,739)	(283,739)
Interest paid	(389,934)	(3,653,800)	(4,043,734)
Cost of issuing bonds	-	682,337	682,337
Other revenue and expenses	(24)	1,406,855	1,406,831
Net cash used in capital and related financing activities	<u>(2,752,489)</u>	<u>(5,241,110)</u>	<u>(7,993,599)</u>
Cash flows from investing activities:			
Investment in certificates of deposit	1,002,459	-	1,002,459
Loans issued	-	(683,682)	-
Investment in future projects	(23,419)	-	(23,419)
Interest received	12,553	332,356	344,909
Decrease in restricted investments, net	(742,072)	-	(742,072)
Net cash provided by (used in) investing activities	<u>249,521</u>	<u>(351,326)</u>	<u>581,877</u>
Increase (decrease) in cash and cash equivalents	(2,929,023)	4,231,851	1,986,510
Cash, cash equivalents and restricted cash at beginning of year	<u>3,238,884</u>	<u>18,665,088</u>	<u>21,903,972</u>
Cash, cash equivalents and restricted cash at end of year	\$ <u>309,861</u>	<u>22,896,939</u>	<u>23,890,482</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (6,621,609)	6,293,273	(328,336)
Adjustment to reconcile operating income (loss) to cash provided by (used in) operating activities:			
Depreciation	7,178,188	5,145,481	12,323,669
OPEB expense paid	(94,290)	-	(94,290)
Changes in assets and liabilities:			
Changes in land inventory	-	705,339	705,339
Mortgages receivable	-	113,730	113,730
Other receivables	(2,284)	115,210	112,926
Inventories	(266)	-	(266)
Prepaid assets	29,003	-	29,003
Accounts payable and accrued liabilities	(988,094)	(2,539,646)	(3,527,740)
Unearned revenues	-	(9,100)	(9,100)
Decrease in net pension asset/liability and related deferred inflows/outflows of resources	73,297	-	73,297
Net cash provided by operating activities	\$ <u>(426,055)</u>	<u>9,824,287</u>	<u>9,398,232</u>
Supplemental disclosure:			
Noncash investing and financing activities:			
Contributed capital funded by accounts receivable	\$ 1,350,637	-	1,350,637

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CITY OF NEWPORT NEWS, VIRGINIA
Trust Funds
Combining Statement of Fiduciary Net Position
June 30, 2017

	<u>Line of Duty</u>	<u>Pension</u>	<u>OPEB</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 2,741,053	\$ 3,665,103	\$ 1,887,304	\$ 8,293,460
Cash and cash equivalents with trustee	-	10,766,987	190,041	10,957,028
Investments, at market value:				
Debt securities	-	116,250,460	-	116,250,460
Equity investments		623,336,569	29,455,652	652,792,221
Private equities	-	30,161,085	-	30,161,085
Real estate and timber	-	114,947,855	-	114,947,855
Receivable from other components	-	72,228	15,391	87,619
Sales receivable	-	928,321	9,312	937,633
Claim Fluctuation Reserve (Anthem)	-	-	1,761,994	1,761,994
Total assets	<u>2,741,053</u>	<u>900,128,608</u>	<u>33,319,694</u>	<u>936,189,355</u>
Liabilities				
Accounts payable	232,556	122,387	1,449,197	1,804,140
Payable to City	-	67,763	338,971	406,734
Purchases payable	-	504,969	-	504,969
Total liabilities	<u>232,556</u>	<u>695,119</u>	<u>1,788,168</u>	<u>2,715,843</u>
Net Position				
Assets held in trust				
Restricted for pension-benefits	-	899,433,489	31,531,526	930,965,015
Restricted	2,508,497	-	-	2,508,497
Total net position	<u>\$ 2,508,497</u>	<u>\$ 899,433,489</u>	<u>\$ 31,531,526</u>	<u>\$ 933,473,512</u>

CITY OF NEWPORT NEWS, VIRGINIA
Trust Funds
Combining Statement of Changes in Fiduciary Net Position
Year ended June 30, 2017

	<u>Line of Duty</u>	<u>Pension</u>	<u>OPEB</u>	<u>Total</u>
Additions:				
Employer Contributions:				
City General Fund	\$ 256,300	\$ 28,307,293	\$ 7,235,750	\$ 35,799,343
Waterworks Fund	-	3,557,799	1,004,250	4,562,049
School Operating Fund	-	7,270,772	-	7,270,772
Employee Contributions:				
City General Fund	-	4,455,244	-	4,455,244
Waterworks Fund	-	577,693	-	577,693
School Operating Fund	-	680,586	-	680,586
Other Contributions:				
Income from Leave Exchange	-	224,534	-	224,534
Employee Buy-back	-	49,794	-	49,794
Total contributions	<u>256,300</u>	<u>45,123,715</u>	<u>8,240,000</u>	<u>53,620,015</u>
Investment income:				
Net appreciation (depreciation) - bonds	-	(2,648,976)	4,930,793	2,281,817
Net appreciation - stocks	-	108,866,925	-	108,866,925
Interest	19,498	3,548,669	10,546	3,578,713
Dividends	-	5,415,704	456,934	5,872,638
Real estate operating income, net	-	3,279,372	-	3,279,372
Commission recapture	-	62,261	-	62,261
Other investment income	-	-	47,773	47,773
Total investment gain	<u>19,498</u>	<u>118,523,955</u>	<u>5,446,046</u>	<u>123,989,499</u>
Less investment expenses:	-	(3,350,231)	(43,711)	(3,393,942)
Net investment gain	<u>19,498</u>	<u>115,173,724</u>	<u>5,402,335</u>	<u>120,595,557</u>
Total additions	<u>275,798</u>	<u>160,297,439</u>	<u>13,642,335</u>	<u>174,215,572</u>
Deductions:				
Benefits paid to participants	300,635	75,465,366	9,512,163	85,278,164
Refunds of member contributions	-	88,790	-	88,790
Administrative expenses	7,130	952,560	60,497	1,020,187
Portability Expense	-	15,932	-	15,932
Total deductions	<u>307,765</u>	<u>76,522,648</u>	<u>9,572,660</u>	<u>86,403,073</u>
Change in net position	<u>(31,967)</u>	<u>83,774,791</u>	<u>4,069,675</u>	<u>87,812,499</u>
Net position held in trust for pension benefits at June 30, 2016	<u>2,540,464</u>	<u>815,658,698</u>	<u>27,461,851</u>	<u>845,661,013</u>
Net position held in trust for pension benefits at June 30, 2017	<u>\$ 2,508,497</u>	<u>\$ 899,433,489</u>	<u>\$ 31,531,526</u>	<u>\$ 933,473,512</u>

See accompanying notes to basic financial statements

CITY OF NEWPORT NEWS, VIRGINIA
Combining Statement of Changes in Assets and Liabilities
Agency Funds
Year Ended June 30, 2017

GPWDC	Balance			Balance
	June 30, 2016	Additions	Deductions	June 30, 2017
Assets:				
Cash and cash equivalents	\$ —	3,506,233	3,506,233	—
Accounts receivable	1,204,855	357,937	430,149	1,132,643
Total assets	<u>\$ 1,204,855</u>	<u>3,864,170</u>	<u>3,936,382</u>	<u>1,132,643</u>
Liabilities:				
Accounts payable	\$ 470,613	2,300,982	2,427,708	343,887
Due to other agencies	734,242	70,034	15,520	788,756
Total liabilities	<u>\$ 1,204,855</u>	<u>2,371,016</u>	<u>2,443,228</u>	<u>1,132,643</u>
 Other Agency Funds				
Assets:				
Cash and cash equivalents	\$ 5,558,756	20,931,220	20,502,258	5,987,718
Accounts receivable	3,780,229	23,259,644	23,305,472	3,734,401
Total assets	<u>\$ 9,338,985</u>	<u>44,190,864</u>	<u>43,807,730</u>	<u>9,722,119</u>
Liabilities:				
Accounts payable	\$ 1,165,665	20,116,890	20,225,703	1,056,852
Due to other governments	5,679,313	486,146	—	6,165,459
Due to other agencies	2,494,007	144,409	138,608	2,499,808
Total liabilities	<u>\$ 9,338,985</u>	<u>20,747,445</u>	<u>20,364,311</u>	<u>9,722,119</u>
 Total - Agency Funds				
Assets:				
Cash and cash equivalents	\$ 5,558,756	24,437,453	24,008,491	5,987,718
Accounts receivable	4,985,084	23,617,581	23,735,621	4,867,044
Total assets	<u>\$ 10,543,840</u>	<u>48,055,034</u>	<u>47,744,112</u>	<u>10,854,762</u>
Liabilities:				
Accounts payable	\$ 1,636,278	22,417,872	22,653,411	1,400,739
Due to other governments	5,679,313	486,146	—	6,165,459
Due to other agencies	3,228,249	214,443	154,128	3,288,564
Total liabilities	<u>\$ 10,543,840</u>	<u>23,118,461</u>	<u>22,807,539</u>	<u>10,854,762</u>

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STATISTICAL SECTION

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

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

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

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

	Fiscal Year									
	2017	2016	2015**	2014	2013	2012	2011	2010	2009	2008
Governmental activities:										
Net investment in capital assets	\$ 403,502,237	\$ 384,685,456	\$ 362,541,053	\$ 344,253,405	\$ 331,677,129	\$ 311,394,219	\$ 290,455,293	\$ 251,724,446	\$ 228,275,222	\$ 223,305,188
Restricted	19,682,760	19,333,167	15,441,843	11,105,034	9,396,408	10,732,493	1,182,184	1,034,412	1,517,751	1,853,588
Unrestricted	(226,610,632)	(202,853,172)	(201,104,209)	(169,541,405)	(165,087,764)	(141,023,569)	(104,156,300)	(59,047,595)	(46,605,508)	(37,333,216)
Total governmental activities net position	<u>\$ 196,574,365</u>	<u>\$ 201,165,451</u>	<u>\$ 176,878,687</u>	<u>\$ 185,817,034</u>	<u>\$ 175,985,773</u>	<u>\$ 181,103,143</u>	<u>\$ 187,481,177</u>	<u>\$ 193,711,263</u>	<u>\$ 183,187,465</u>	<u>\$ 187,825,560</u>
Business-type activities:										
Net investment in capital assets	\$ 312,211,263	\$ 299,063,108	\$ 284,602,082	\$ 243,541,418	\$ 232,313,434	\$ 257,644,908	\$ 251,759,910	\$ 238,441,047	\$ 276,666,222	\$ 277,770,877
Restricted	-	-	-	28,007,541	30,427,669	-	-	-	-	-
Unrestricted	9,195,280	3,558,442	1,951,106	27,165,354	21,103,436	19,485,138	23,521,844	31,828,423	41,643,472	29,287,711
Total business-type activities net position *	<u>\$ 321,406,543</u>	<u>\$ 302,621,550</u>	<u>\$ 286,553,188</u>	<u>\$ 298,714,313</u>	<u>\$ 283,844,539</u>	<u>\$ 277,130,046</u>	<u>\$ 275,281,754</u>	<u>\$ 270,269,470</u>	<u>\$ 318,309,694</u>	<u>\$ 307,058,588</u>
Primary Government:										
Net investment in capital assets	\$ 715,713,500	\$ 683,748,564	\$ 647,143,135	\$ 587,794,823	\$ 563,990,563	\$ 569,039,127	\$ 542,215,203	\$ 490,165,493	\$ 504,941,444	\$ 501,076,065
Restricted	19,682,760	19,333,167	15,441,843	39,112,575	39,824,077	10,732,493	1,182,184	1,034,412	1,517,751	1,853,588
Unrestricted (deficit)	(217,415,352)	(199,294,730)	(199,153,103)	(142,376,051)	(143,984,328)	(121,538,431)	(80,634,456)	(27,219,172)	(4,962,036)	(8,045,505)
Total Primary Government net position	<u>\$ 517,980,908</u>	<u>\$ 503,787,001</u>	<u>\$ 463,431,875</u>	<u>\$ 484,531,347</u>	<u>\$ 459,830,312</u>	<u>\$ 458,233,189</u>	<u>\$ 462,762,931</u>	<u>\$ 463,980,733</u>	<u>\$ 501,497,159</u>	<u>\$ 494,884,148</u>

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

** Implementation of GASB 68

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

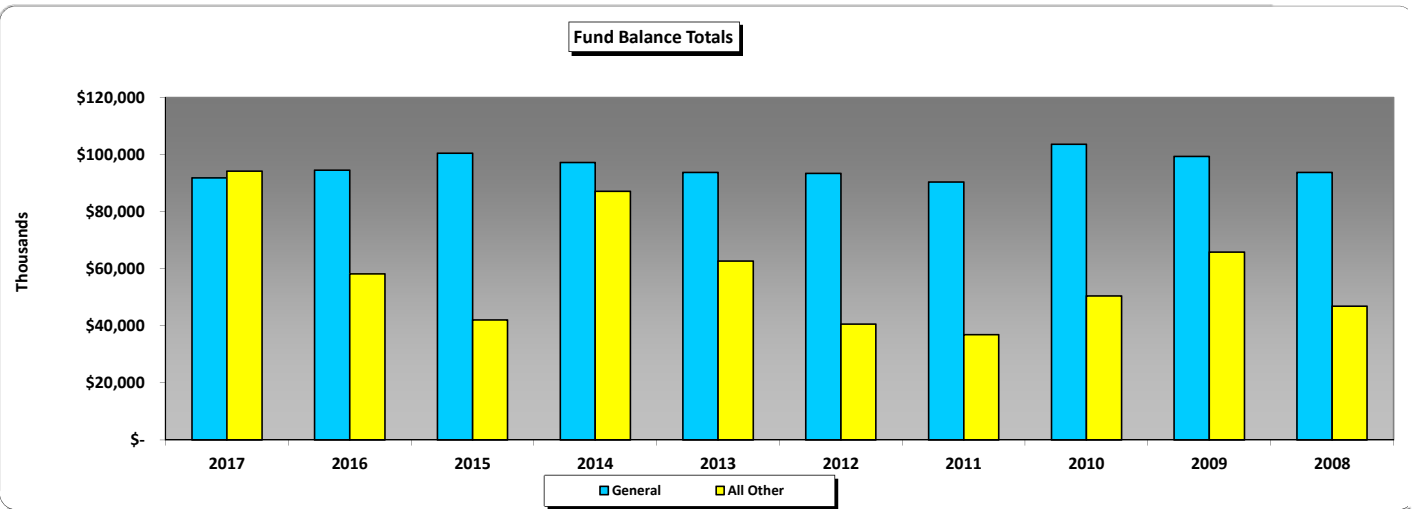
	Fiscal Year									
	2017	2016	2015**	2014*	2013	2012	2011	2010	2009	2008
Program revenues										
Governmental activities:										
Charges for services:										
Public works	\$ 55,846,420	\$ 54,559,279	\$ 52,316,287	\$ 45,729,958	\$ 40,889,684	\$ 37,095,768	\$ 36,800,694	\$ 37,744,481	\$ 34,526,097	\$ 30,513,564
All others	29,954,030	28,819,222	29,469,594	27,341,075	27,279,880	26,264,076	25,854,740	25,805,742	26,406,149	25,760,135
Operating grants and contributions	40,933,661	41,835,794	41,537,105	41,230,144	39,249,011	41,429,302	44,986,270	42,704,554	44,966,813	45,835,149
Capital grants and contributions	16,980,158	9,891,763	9,852,965	8,261,793	6,482,329	4,966,923	3,156,118	4,740,959	1,962,681	2,140,343
Total governmental activities program revenues	143,714,269	135,106,058	133,175,951	122,562,970	113,900,904	109,756,069	110,797,822	110,995,736	107,861,740	104,249,191
Business-type activities:										
Charges for services	91,990,145	89,992,744	88,819,826	85,580,834	76,099,474	73,337,822	74,497,015	72,719,343	73,817,176	76,003,756
Operating/Capital grants and contributions	2,263,856	3,352,599	2,434,032	2,327,993	2,811,556	3,475,356	4,810,036	5,381,669	8,332,219	3,782,758
Total business-type activities program revenues	94,254,001	93,345,343	91,253,858	87,908,827	78,911,030	76,813,178	79,307,051	78,101,012	82,149,395	79,786,514
Total Primary Government program revenues	237,968,270	228,451,401	224,429,809	210,471,797	192,811,934	186,569,247	190,104,873	189,096,748	190,011,135	184,035,705
Expenses										
Governmental activities:										
General government	110,180,530	105,287,988	95,389,412	98,295,537	85,544,610	53,687,583	41,072,050	56,496,116	67,006,531	54,904,104
Judicial administration	8,150,550	7,000,968	6,705,580	6,801,427	6,779,007	7,796,103	7,675,395	7,061,964	7,042,239	7,269,926
Public safety	128,952,047	117,228,275	112,771,624	116,029,097	113,305,100	131,544,707	129,661,963	119,642,698	120,240,436	119,019,088
Public works	85,577,272	77,766,098	70,465,462	72,201,809	70,293,521	76,076,207	77,288,468	71,950,527	70,635,586	70,571,291
Health and welfare	44,848,871	41,363,323	39,218,507	40,894,433	42,283,290	49,131,969	54,114,507	52,805,082	56,468,567	58,563,411
Education	138,929,299	121,829,209	147,634,659	119,743,781	116,592,925	117,566,704	118,376,318	119,956,981	116,528,527	114,275,568
Parks, recreation and culture	35,237,952	32,294,586	31,522,216	32,804,044	34,050,686	34,690,901	34,385,246	32,614,571	34,409,781	36,183,209
Community development	11,180,081	11,490,635	7,371,121	9,764,564	11,194,312	8,743,779	12,678,704	10,369,291	8,832,458	10,623,457
Interest and other fiscal charges	19,860,527	20,545,591	20,497,054	20,607,931	22,927,201	25,545,336	30,258,101	23,923,629	25,487,370	24,118,788
Total governmental activities expenses	582,917,129	534,806,673	531,575,635	517,142,623	502,970,652	504,783,289	505,510,752	494,820,859	506,651,495	495,528,842
Business-type activities:										
Public utilities	67,605,709	69,011,682	64,775,097	63,629,010	62,502,189	65,287,629	64,529,867	64,078,572	62,684,897	59,439,084
Total business-type activities expenses	67,605,709	69,011,682	64,775,097	63,629,010	62,502,189	65,287,629	64,529,867	64,078,572	62,684,897	59,439,084
Total Primary Government expenses	650,522,838	603,818,355	596,350,732	580,771,633	565,472,841	570,070,918	570,040,619	558,899,431	569,336,392	554,967,926
Net Revenue/(Expenses)										
Governmental activities	(439,202,860)	(399,700,615)	(398,399,684)	(394,579,653)	(389,069,748)	(395,027,220)	(394,712,930)	(383,825,123)	(398,789,755)	(391,279,651)
Business-type activities	26,648,292	24,333,661	26,478,761	24,279,817	16,408,841	11,525,549	14,777,184	14,022,440	19,464,498	20,347,430
Total Primary Government	(412,554,568)	(375,366,954)	(371,920,923)	(370,299,836)	(372,660,907)	(383,501,671)	(379,935,746)	(369,802,683)	(379,325,257)	(370,932,221)
General revenues and Other Changes in Net Assets										
Governmental activities:										
Property taxes	261,245,586	256,787,386	250,847,834	246,119,180	229,811,554	229,194,920	230,980,102	236,993,370	233,735,214	219,867,771
Other taxes	103,889,921	102,082,792	100,362,448	96,418,092	96,537,561	91,744,426	89,063,340	88,595,948	89,624,744	93,161,528
Unrestricted grants and contributions	44,482,705	43,217,511	43,235,474	42,216,776	41,481,654	47,106,347	48,209,536	48,630,187	48,993,988	49,350,467
Investment earnings	3,102,177	2,688,086	2,438,265	2,293,272	2,328,310	2,270,634	2,395,569	2,663,324	3,596,647	6,169,470
Miscellaneous	12,391,385	9,711,606	10,542,858	9,358,360	3,902,299	8,441,859	7,834,297	7,466,092	8,201,067	10,837,049
Transfers	9,500,000	9,500,000	9,500,000	9,391,000	9,891,000	9,891,000	10,000,000	10,000,000	10,000,000	10,000,000
Total governmental activities	434,611,774	423,987,381	416,926,879	405,796,680	383,952,378	388,649,186	388,482,844	394,348,921	394,151,660	389,386,285
Business-type activities:										
Investment earnings	454,799	276,491	167,947	153,241	196,652	213,743	235,100	549,737	1,940,465	2,988,546
Extraordinary loss	-	-	-	-	-	-	-	(52,612,401)	-	-
Miscellaneous	1,181,902	958,210	962,131	717,187	-	-	-	-	-	-
Transfers	(9,500,000)	(9,500,000)	(9,500,000)	(9,391,000)	(9,891,000)	(9,891,000)	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)
Total business-type activities	(7,863,299)	(8,265,299)	(8,369,922)	(8,520,572)	(9,694,348)	(9,677,257)	(9,764,900)	(62,062,664)	(8,059,535)	(7,011,454)
Total Primary Government	426,748,475	415,722,082	408,556,957	397,276,108	374,258,030	378,971,929	378,717,944	332,286,257	386,092,125	382,374,831
Changes in Net Position										
Governmental activities	(4,591,086)	24,286,766	18,527,195	11,217,027	(5,117,370)	(6,378,034)	(6,230,086)	10,523,798	(4,638,095)	(1,893,366)
Business-type activities	18,784,993	16,068,362	18,108,839	15,759,245	6,714,493	1,848,292	5,012,284	(48,040,224)	11,404,963	13,335,976
Total Primary Government	\$ 14,193,907	\$ 40,355,128	\$ 36,636,034	\$ 26,976,272	\$ 1,597,123	\$ (4,529,742)	\$ (1,217,802)	\$ (37,516,426)	\$ 6,766,868	\$ 11,442,610

Note: * Implementation of GASB 65
** Implementation of GASB 68

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

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
General fund										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	6,305,988	5,194,291	6,009,589
Unreserved	-	-	-	-	-	-	-	97,366,646	94,164,397	87,703,448
Nonspendable	11,519,118	11,436,689	11,541,956	11,370,286	12,862,783	15,412,699	15,711,917	-	-	-
Restricted	322,798	224,814	133,554	90,649	563,863	2,013,986	2,011,665	-	-	-
Assigned	28,279,733	31,855,250	39,089,271	38,415,687	34,939,767	34,656,608	31,290,680	-	-	-
Unassigned	51,711,616	51,054,853	49,692,460	47,366,583	45,353,317	41,364,679	41,390,600	-	-	-
Total general fund	\$ 91,833,265	\$ 94,571,606	\$ 100,457,241	\$ 97,243,205	\$ 93,719,730	\$ 93,447,972	\$ 90,404,862	\$ 103,672,634	\$ 99,358,688	\$ 93,713,037
All other governmental funds										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	17,170,639	11,977,232	14,741,065
Unreserved, reported in:										
Special revenue fund	-	-	-	-	-	-	-	12,372,862	15,126,615	10,474,287
Debt service fund	-	-	-	-	-	-	-	6,511,346	1,258,059	2,695,240
Capital project fund	-	-	-	-	-	-	-	13,290,298	10,927,505	11,555,970
Bond fund	-	-	-	-	-	-	-	1,144,480	26,477,781	7,393,868
Restricted	74,987,521	37,764,123	30,414,816	56,269,407	32,442,547	24,773,693	28,210,329	-	-	-
Committed	19,575,222	20,806,270	32,354,805	30,841,880	30,148,309	32,951,026	40,772,110	-	-	-
Assigned	15,223	-	-	-	92,000	-	30,000	-	-	-
Unassigned	(368,067)	(429,701)	(20,674,947)	-	-	(17,129,925)	(32,086,837)	-	-	-
Total all other governmental funds	\$ 94,209,899	\$ 58,140,692	\$ 42,094,674	\$ 87,111,287	\$ 62,682,856	\$ 40,594,794	\$ 36,925,602	\$ 50,489,625	\$ 65,767,192	\$ 46,860,430

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									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Revenues										
General property taxes	\$261,130	\$256,442	\$248,297	\$245,531	\$228,025	\$229,353	\$230,860	\$236,184	\$233,632	\$219,316
Other local taxes	103,890	102,083	100,362	96,418	96,538	91,744	89,063	88,596	89,625	93,162
Licenses and permits	3,724	3,413	3,866	3,433	2,803	3,645	3,372	2,846	3,170	3,672
Fines and forfeitures	1,727	1,517	2,247	2,599	2,984	2,697	2,332	2,213	1,981	1,881
Interest and rents	3,065	2,669	2,425	2,285	2,322	2,264	2,391	2,653	3,579	6,147
Charges for services	78,390	76,208	73,593	64,421	59,179	54,895	54,057	55,523	51,003	46,403
Recovered costs	5,683	5,654	5,946	6,051	6,007	5,768	6,267	5,814	7,948	8,718
Intergovernmental	99,943	92,433	92,649	90,606	86,344	93,076	94,980	92,883	95,048	96,745
Miscellaneous	6,000	4,211	4,348	3,596	3,810	3,034	3,476	3,348	3,821	4,964
Total revenues	563,552	544,630	533,733	514,940	488,012	486,476	486,798	490,060	489,807	481,008
Expenditures										
General government	91,034	94,516	83,730	77,930	76,785	50,109	49,331	51,254	51,921	49,368
Judicial administration	7,225	6,442	6,383	6,129	5,861	6,733	6,592	6,236	6,148	6,218
Public safety	118,558	113,199	111,415	107,104	100,419	116,183	114,075	108,877	108,467	105,008
Public works	71,256	67,487	61,926	59,511	55,527	60,806	62,152	58,764	57,178	56,174
Health and welfare	42,722	41,461	40,244	39,113	38,807	44,654	48,918	49,309	52,154	52,892
Education	130,697	120,300	140,727	117,890	119,362	123,007	118,262	119,581	119,088	121,770
Parks recreation culture	30,047	28,396	27,984	26,637	26,829	27,421	26,923	25,976	27,082	28,174
Community development	9,895	10,974	6,990	8,811	9,778	7,429	10,852	8,959	7,439	8,899
Debt service:										
Principal	40,085	38,000	38,687	38,295	35,123	36,792	33,675	33,444	34,422	35,742
Interest	19,995	20,670	19,499	21,690	22,426	25,424	28,100	24,356	26,054	24,792
Capital outlay	45,078	56,311	47,865	45,878	38,271	37,883	27,791	27,186	21,858	33,615
Bond issuance cost	-	-	-	-	-	-	-	-	-	-
Total expenditures	606,592	597,756	585,450	548,988	529,188	536,441	526,671	513,942	511,811	522,651
Deficiency of revenues										
Under expenditures	(43,040)	(53,126)	(51,718)	(34,048)	(41,176)	(49,965)	(39,873)	(23,882)	(22,004)	(41,643)
Other Financing sources (Uses)										
Transfer In	71,696	70,403	73,313	69,806	64,854	63,980	87,189	69,587	66,217	78,707
Transfer Out	(62,196)	(60,903)	(63,398)	(60,415)	(54,963)	(54,089)	(77,189)	(59,587)	(56,217)	(68,707)
Payment to refund bonds	-	(39,614)	-	(64,867)	-	(76,685)	-	-	(136)	-
Premium on refunded bonds	-	6,728	-	7,464	-	7,756	-	-	663	1,716
Refund bonds proceeds	-	33,190	-	56,115	-	69,335	-	-	481	-
Bond and note proceeds	59,455	48,890	-	45,000	51,905	42,121	3,041	2,918	35,549	34,843
Premium on bonds issuance	7,416	4,592	-	8,897	5,698	4,259	-	-	-	-
Contribution to PAC	-	-	-	-	(3,958)	-	-	-	-	-
Total other financing sources, net	76,371	63,286	9,915	62,000	63,536	56,677	13,041	12,918	46,557	46,559
Net change in fund balance	\$33,331	\$10,160	(\$41,803)	\$27,952	\$22,360	\$6,712	(\$26,832)	(\$10,964)	\$24,553	\$4,916
Debt service as a percentage of noncapital expenditures *	10.7%	10.8%	10.8%	11.9%	11.7%	12.5%	12.4%	11.7%	12.3%	12.4%

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

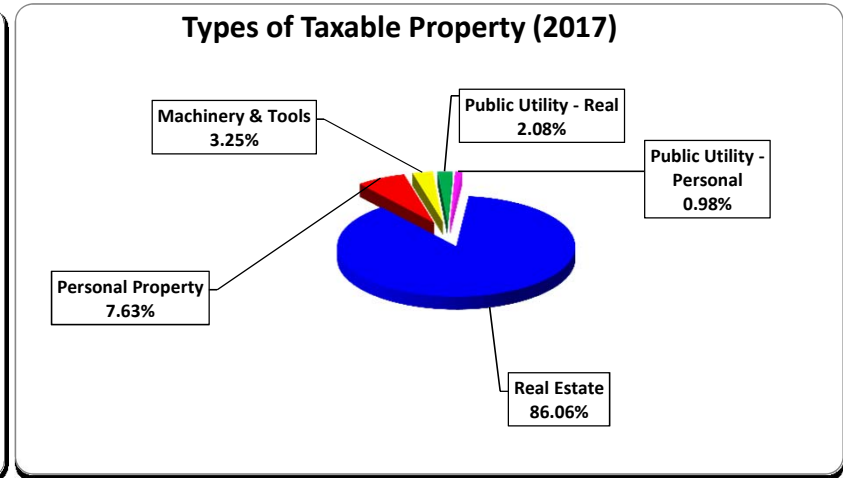
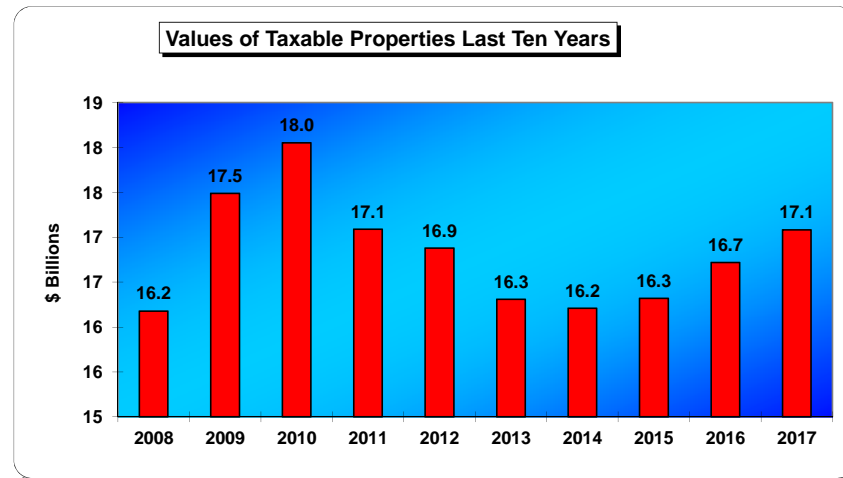
City of Newport News, Virginia
Governmental Activities Tax Revenues By Source
Last Ten Fiscal Years
(Modified accrual basis of accounting)

	Fiscal Year										% Change 2008-2017
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	
Property tax	\$261,245,586	\$256,787,386	\$250,847,834	\$246,119,180	\$229,811,554	\$229,194,920	\$230,980,102	\$236,183,979	\$233,631,532	\$219,315,976	16.0%
E911 service	722,114	701,894	722,381	637,060	596,242	699,378	729,711	737,734	708,725	571,027	20.9%
Telecom sales	11,012,699	11,289,782	11,679,829	11,697,528	11,992,112	11,681,054	12,321,643	12,018,133	12,416,819	13,177,014	-19.7%
Sales tax	24,553,589	23,601,270	23,390,029	22,426,753	22,920,353	22,022,527	21,206,724	20,862,730	21,930,591	23,572,320	4.0%
Utility tax	6,043,252	6,262,091	6,312,731	6,279,595	6,262,714	5,891,989	6,511,120	6,321,381	6,137,436	6,112,238	-1.1%
Consumption tax	904,868	669,850	714,814	709,174	700,021	653,430	674,265	776,672	728,656	704,570	22.1%
Business license tax	16,762,176	16,383,239	16,360,314	15,750,751	16,200,207	16,109,141	15,115,176	15,266,938	14,676,421	15,116,393	9.8%
Rental car tax	1,144,248	1,115,643	1,119,583	1,041,657	1,151,221	1,229,911	1,044,775	1,021,610	1,058,659	996,093	12.9%
Motor vehicle license tax	4,131,204	4,096,782	4,009,795	4,103,933	3,876,035	3,917,451	3,880,996	3,922,803	3,905,814	3,531,053	14.5%
Bank stock tax	1,012,668	804,718	642,977	675,657	666,072	847,745	957,902	1,015,597	727,678	588,882	41.8%
Recordation and wills tax	1,598,418	1,490,565	1,340,624	1,265,779	1,370,840	1,407,159	1,065,889	1,263,938	1,461,537	2,219,287	-38.8%
Tobacco tax	4,925,919	4,808,217	4,949,954	5,102,091	5,228,287	4,799,234	4,269,564	4,160,343	4,119,169	4,205,798	14.6%
Hotel and motel room tax	4,278,009	4,297,160	4,013,332	3,178,730	3,008,260	3,191,992	3,064,515	2,969,053	3,130,281	3,454,926	19.2%
Restaurant food tax	25,757,894	25,551,404	24,136,927	22,873,051	22,082,728	18,835,979	17,767,348	17,765,937	18,074,235	18,348,254	28.8%
Amusement tax	980,953	929,005	872,557	665,301	482,469	457,436	453,712	493,079	548,722	563,673	42.5%
Tourism zone tax	61,910.00	81,172	96,601	11,032	-	-	-	-	-	-	100.0%
Total Taxes	\$365,135,507	\$358,870,178	\$351,210,282	\$342,537,272	\$326,349,115	\$320,939,346	\$320,043,442	\$324,779,927	\$323,256,275	\$312,477,504	14.4%

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

Fiscal Year	Real Estate		Personal Property		Machinery and Tools		Public Utility		Less: Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value						
2008	\$	17,390,981	\$	1,233,279	\$	364,010	\$	211,388	\$	136,000	\$	(3,157,425)	\$	16,178,233	\$	1.53	\$	19,335,658
2009		19,011,429		1,195,193		397,899		250,995		163,492		(3,530,295)		17,488,713		1.51		21,019,008
2010		19,762,256		1,154,011		419,441		293,307		172,545		(3,753,027)		18,048,533		1.37		21,801,560
2011		18,600,158		1,165,494		438,747		326,889		173,108		(3,614,365)		17,090,031		1.40		20,704,396
2012		18,342,224		1,186,515		468,330		339,790		163,940		(3,622,298)		16,878,501		1.41		20,500,799
2013		17,744,690		1,221,798		486,090		333,266		163,292		(3,641,733)		16,307,403		1.45		19,949,136
2014		17,768,798		1,248,199		507,497		353,179		156,714		(3,826,649)		16,207,738		1.41		20,034,387
2015		17,979,237		1,263,012		531,235		352,226		155,737		(3,962,290)		16,319,157		1.40		20,281,447
2016		18,396,884		1,322,984		543,091		349,931		157,772		(4,053,925)		16,716,737		1.42		20,770,662
2017		18,782,332		1,365,979		554,965		355,023		167,828		(4,143,466)		17,082,661		1.53		21,226,127

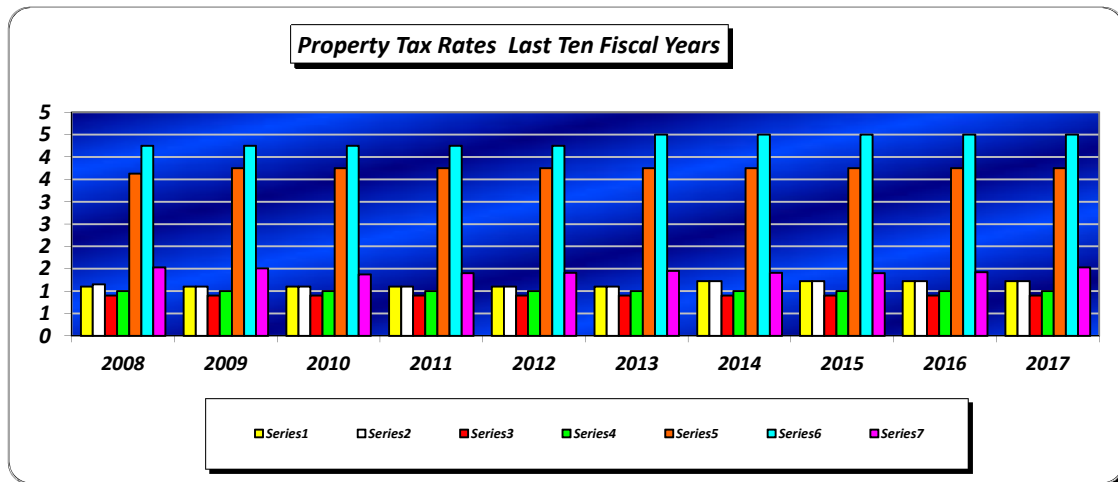
Source: City of Newport News Real Estate Assessors Office & Commissioner of the Revenue's Office



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

City Direct Rates									
Fiscal Year	Real Estate	Mobile Homes	Trawlers	Pleasure Boats	Machinery & Tools	Motor Vehicles	Total Direct Rate		
2008	\$ 1.10	\$ 1.15	\$ 0.90	\$ 1.00	\$ 3.63	\$ 4.25	\$ 1.53		
2009	1.10	1.10	0.90	1.00	3.75	4.25	1.51		
2010	1.10	1.10	0.90	1.00	3.75	4.25	1.37		
2011	1.10	1.10	0.90	1.00	3.75	4.25	1.40		
2012	1.10	1.10	0.90	1.00	3.75	4.25	1.41		
2013	1.10	1.10	0.90	1.00	3.75	4.50	1.45		
2014	1.22	1.22	0.90	1.00	3.75	4.50	1.41		
2015	1.22	1.22	0.90	1.00	3.75	4.50	1.40		
2016	1.22	1.22	0.90	1.00	3.75	4.50	1.42		
2017	1.22	1.22	0.90	1.00	3.75	4.50	1.53		

Source: City of Newport News FY17 Adopted Operating Budget



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

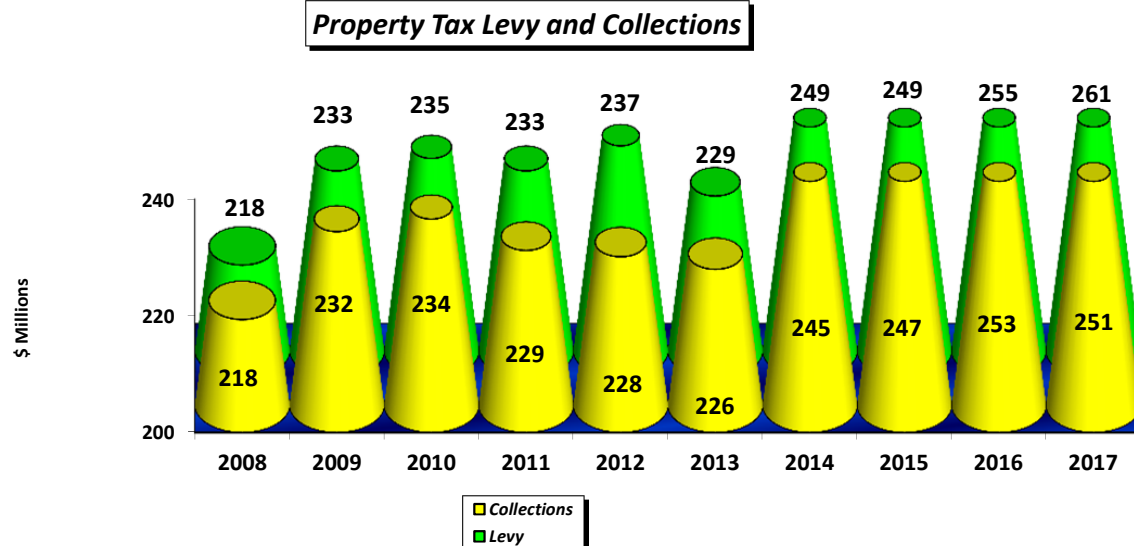
	2017		2008	
	Taxes Due	Percentage	Taxes Due	Percentage
	based on Assessed Value	of Taxes Due	based on Assessed Value	of Taxes Due
Huntington Ingalls Incorporated	\$22,157	8.44%	\$13,867	7.89%
Canon Virginia Inc	\$4,882	1.86%	1,671	0.95%
Virginia Electric & Power Company	\$2,886	1.10%	818	0.47%
The Mariners Museum	\$2,808	1.07%	1,264	0.72%
PR Patrick Henry LLC	\$1,921	0.73%		
Continental Automotive Systems US Inc	\$1,679	0.64%	873	0.50%
Verizon Virginia Inc	\$1,389	0.53%	530	0.30%
Dominion Terminal Associates	\$1,195	0.45%	545	0.31%
Kinder Morgan Operating LP	\$1,003	0.38%	446	0.25%
FCPK Harbours LLC	\$986	0.38%		
Virginia Natural Gas Inc	\$973	0.37%	356	0.20%
Pointe Hope LLC	\$920	0.35%	-	-
Cox Communications Hampton Roads Inc	\$911	0.35%	387	0.22%
IREIT Newport News Tech Center LLC	\$892	0.34%	-	-
Wal-Mart Real Estate Business Trust	\$756	0.29%	-	-
RPAI US Management LLC	\$709	0.27%	-	-
Ferguson Enterprises Corp	\$671	0.26%	-	-
Oyster Point Residential LLC	\$608	0.23%	-	-
Patrick Henry Hospital (Warwick Forest)	\$558	0.21%	-	-
Bottling Group LLC	\$545	0.21%	318	0.18%
Crown America Financial Partnership LP	-	-	1,440	0.82%
Mountain Ventures Newport News LLC & Jefferson	-	-	662	0.38%
Shorewood Packaging Corp of VA	-	-	557	0.32%
United Dominion Realty Trust Inc	-	-	502	0.29%
Peninsula Ports Authority of VA	-	-	396	0.23%
Newport-Oxford Assoc LTD Partnership	-	-	385	0.22%
Harbours LLC *4	-	-	364	0.21%
Hewlett Packard Financial Services Inc	-	-	330	0.19%
Chesapeake Investors LLC	-	-	322	0.18%
Total	\$48,449	18.45%	\$26,033	14.83%

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

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

Fiscal Year	Tax Levy		Current Year		Prior Year Amount	Collections in Subsequent Years		Total Collections for Year	
			Amount	% of Levy				Amount	% of Levy
2008	\$	218,395	\$ 210,243	96.3%	-	\$ 7,831	\$	218,074	99.9%
2009		232,507	224,199	96.4%	-	7,592		231,791	99.7%
2010		235,225	227,030	96.5%	-	6,476		233,506	99.3%
2011		233,380	222,804	95.5%	-	6,115		228,919	98.1%
2012		236,875	220,914	93.3%	-	7,550		228,464	96.4%
2013		229,071	218,911	95.6%	-	7,267		226,178	98.7%
2014		248,820	236,734	95.1%	-	8,340		245,074	98.5%
2015		248,645	238,149	95.8%	-	9199		247,348	99.5%
2016		255,057	245,186	96.1%	-	7917		253,103	99.2%
2017		260,913	250,535	96.0%	-	Not Available		250,535	96.0%

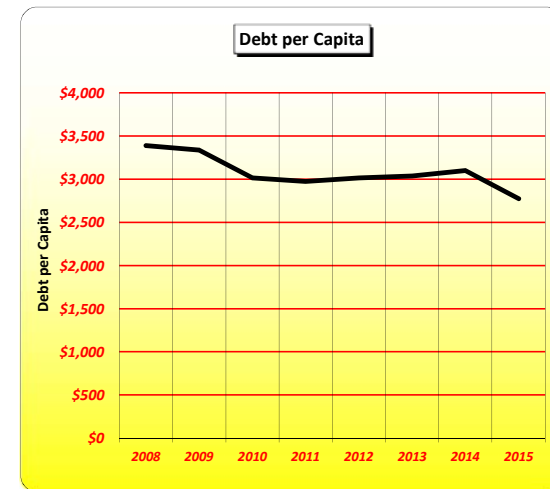
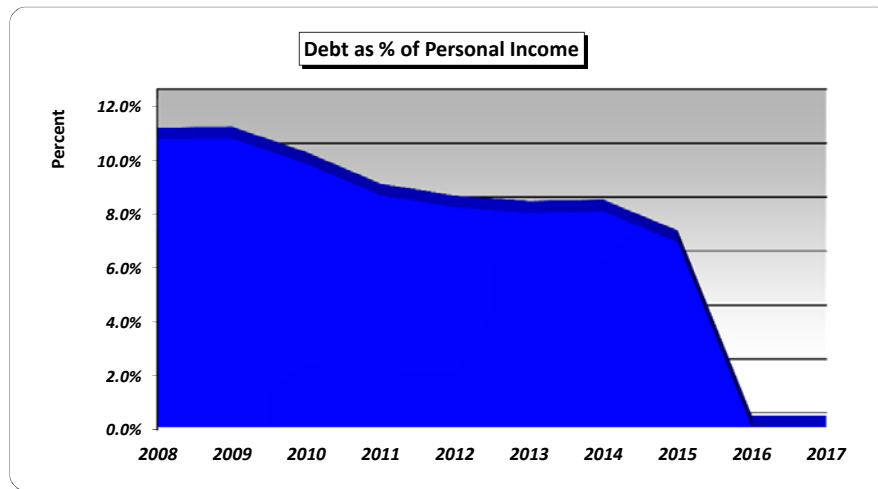


City of Newport News, Virginia
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(Dollars in thousands, except per capita)

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Population	181,825	182,385	182,965	182,020	180,726	180,719	180,719	193,172	193,212	187,200
Personal Income	\$ -	\$ -	\$ 7,377,992	\$ 7,045,829	\$ 6,891,612	\$ 6,672,878	\$ 6,241,927	\$ 5,946,073	\$ 6,011,449	\$ 5,941,588
Governmental Activities:										
General Obligation Bonds	411,719	389,018	373,923	415,933	388,206	366,401	353,639	383,753	413,482	411,159
Guaranty of Peninsula Airport Bonds	-	-	-	-	-	4,180	4,490	4,780	5,055	5,315
Literary Fund	4,199	4,619	5,038	5,458	5,878	6,298	6,717	7,237	8,034	8,830
Capital Leases	211	320	434	571	-	-	-	-	388	53
Land Lease Payable	262	509	742	961	1,167	1,362	-	-	-	-
Land Purchase Payable	-	-	-	142	600	633	-	-	-	-
Business-type Activities:										
Public Utility Bonds	129,367	113,508	127,043	141,464	153,005	166,107	172,695	186,330	217,720	208,855
Total Primary Government	\$ 545,758	\$ 507,974	\$ 507,180	\$ 564,529	\$ 548,856	\$ 544,981	\$ 537,541	\$ 582,100	\$ 644,679	\$ 634,212
Percentage of Personal Income	-	-	6.9%	8.0%	8.0%	8.2%	8.6%	9.8%	10.7%	10.7%
Net Bonded Debt Per Capita	\$ 3,002	\$ 2,785	\$ 2,772	\$ 3,101	\$ 3,037	\$ 3,016	\$ 2,974	\$ 3,013	\$ 3,337	\$ 3,388

Note: Population figures are derived as follows: 2008 - 2009 City estimates, 2010 - 2017 Census Bureau estimates.

Note: Personal Income figures were not available for FY2016 & FY2017.

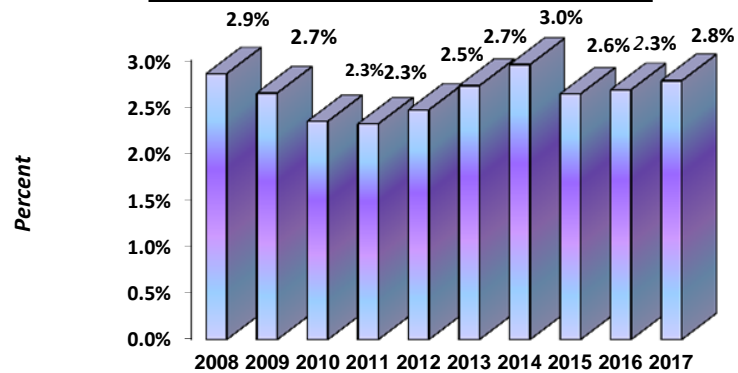


City of Newport News, Virginia
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(in thousands of dollars)

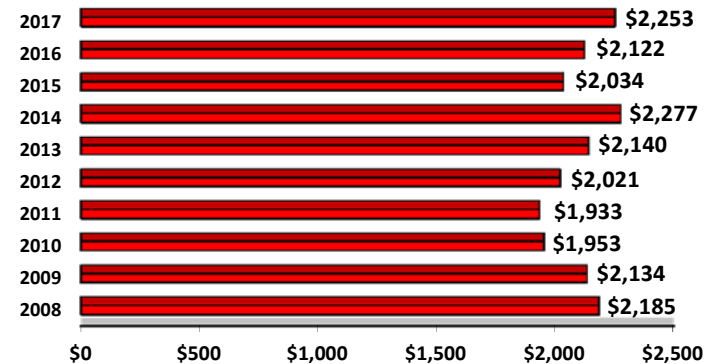
Fiscal Year	Population	Assessed Value of Real Property	General Obligation Bonds	Less Debt Service	Net Bonded Debt	Net Bonded Debt as % of Assessed Valuation	Net Bonded Debt Per Capita
2008	187,200	\$ 14,286,003	\$ 411,159	\$ 2,139	\$ 409,020	2.9%	\$ 2,185
2009	193,212	15,527,921	413,482	1,258	412,224	2.7%	2,134
2010	193,172	16,059,444	383,753	6,511	377,242	2.3%	1,953
2011	180,719	15,037,654	353,639	4,341	349,298	2.3%	1,933
2012	180,719	14,768,666	366,401	1,184	365,217	2.5%	2,021
2013	180,726	14,150,367	388,206	1,375	386,831	2.7%	2,140
2014	182,020	13,996,117	415,933	1,560	414,373	3.0%	2,277
2015	182,965	14,072,307	373,923	1,739	372,184	2.6%	2,034
2016	182,385	14,393,093	389,018	1,924	387,094	2.7%	2,122
2017	181,825	14,702,701	411,719	2,096	409,623	2.8%	2,253

Note: Population figures are derived as follows: 2008-2009 City estimates, 2010 - 2017 Census Bureau estimates.

Debt as % of Assessed Property Value



Debt per Capita

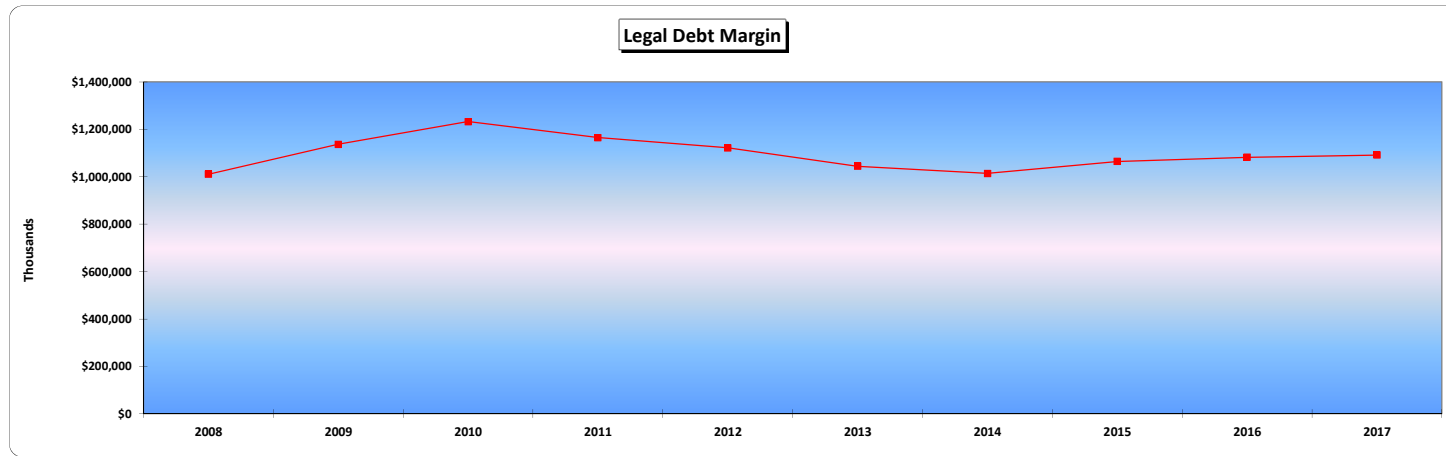


City of Newport News, Virginia
Legal Debt Margin Information
Last Ten Fiscal Years

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Assessed Value of Real Estate:										
General	\$14,702,700,500	\$14,393,093,200	\$14,072,307,152	\$13,996,117,386	\$14,150,366,660	\$14,768,666,300	\$15,037,654,401	\$16,059,444,443	\$15,527,920,717	\$14,286,002,924
Public Service Corporations	355,023,068	349,931,124	352,225,787	352,225,787	333,265,887	339,789,784	326,888,523	293,307,435	250,994,845	211,388,045
Total assessed value	15,057,723,568	14,743,024,324	14,424,532,939	14,348,343,173	14,483,632,547	15,108,456,084	15,364,542,924	16,352,751,878	15,778,915,562	14,497,390,969
Total debt limit (10% of Total Assessed Value)	1,505,772,357	1,474,302,432	1,442,453,294	1,434,834,317	1,448,363,255	1,510,845,608	1,536,454,292	1,635,275,188	1,577,891,556	1,449,739,097
Bonds Outstanding:										
General Obligation, net of unamortized premiums *	390,581,276	365,304,713	346,758,457	384,926,642	364,737,386	341,281,715	322,235,283	354,045,305	385,722,061	387,060,271
General Obligation: Virginia Public School Authority (VPSA)	1,413,176	1,741,482	2,430,106	3,099,111	3,749,472	4,382,117	5,256,983	6,105,937	6,929,403	7,728,827
General Obligation: Virginia Resources Authority (VRA) Loan Fund	17,282,464	19,529,503	22,128,990	24,727,534	27,228,156	29,583,326	31,776,867	30,761,968	29,692,012	25,644,960
General Obligation: Virginia Municipal Pool Loans (VMPL)	-	-	162,564	737,565	1,312,565	1,887,565	2,462,565	3,037,565	3,612,565	4,187,565
Guaranty of Peninsula Airport Bonds	-	-	-	-	-	4,180,000	4,490,000	4,780,000	5,055,000	5,315,000
Literary Fund	4,198,821	4,618,588	5,038,355	5,458,122	5,877,889	6,297,656	6,717,425	7,598,441	8,034,421	8,829,688
Qualified Zone Academy Bonds (QZAB)	2,442,494	2,442,494	2,442,494	2,442,494	2,442,494	2,442,494	2,442,494	2,442,494	2,442,494	2,442,494
Capital leases **	210,801	320,418	433,747	570,701	-	-	-	-	360,965	53,407
Amount available in Debt Service Fund	(2,096,466)	(1,923,785)	(1,738,973)	(1,559,619)	(1,467,172)	(1,183,546)	(4,370,897)	(6,511,346)	(1,258,059)	(2,138,839)
Total debt outstanding	414,032,566	392,033,413	377,655,740	420,402,550	403,880,790	388,871,327	371,010,720	402,260,364	440,590,862	439,123,373
Legal debt margin	\$1,091,739,791	\$1,082,269,019	\$1,064,797,554	\$1,014,431,767	\$1,044,482,465	\$1,121,974,281	\$1,165,443,572	\$1,233,014,824	\$1,137,300,694	\$1,010,615,724
Total net debt applicable to the limit as a % of debt limit	72.50%	73.41%	73.82%	70.70%	72.11%	74.26%	75.85%	75.40%	72.08%	69.71%

* Corrected General Obligation amounts for 2008-2016 to include unamortized premiums that were previously omitted from schedule

** Corrected Capital Leases amounts for 2008 - 2010



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

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Revenues	\$ 91,990,145	\$ 89,992,744	\$ 88,819,826	\$ 85,580,834	\$ 76,099,474	\$ 73,337,821	\$ 74,497,013	\$ 72,719,343	\$ 73,817,176	\$76,003,756
Less the Sum of:										
Operating Expenses	47,780,964	48,435,441	43,199,329	43,866,179	44,089,732	43,538,269	42,366,225	42,696,818	41,863,251	40,055,421
120% of Max Debt Service on Revenue Bonds	2,788,351	2,213,227	3,129,200	3,129,200	3,129,200	3,129,200	3,129,200	3,129,200	27,555,365	3,118,485
100% of Max Debt Service on general obligation water bonds	15,703,580	15,886,779	15,935,112	16,006,224	16,356,343	16,710,108	19,355,120	16,356,343	16,356,343	19,552,167
	66,272,895	66,535,447	62,263,641	63,001,603	63,575,275	63,377,577	64,850,545	62,182,361	85,774,959	62,726,073
Equals (1)	<u>\$ 25,717,250</u>	<u>\$ 23,457,297</u>	<u>\$ 26,556,185</u>	<u>\$ 22,579,231</u>	<u>\$ 12,524,199</u>	<u>\$ 9,960,244</u>	<u>\$ 9,646,468</u>	<u>\$ 10,536,982</u>	<u>\$ (11,957,783)</u>	<u>\$13,277,683</u>

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

Note: Operating expenses exclude depreciation.

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

Fiscal Year	Population	Personal Income (In thousands)	Per Capita Income	Median Age	School Enrollment	Unemployment Rate
2008	187,200	\$ 5,941,588	\$ 28,990	34	29,441	4.0%
2009	193,212	6,011,449	31,120	33	29,023	6.5%
2010	193,172	5,946,073	32,921	32	28,610	8.0%
2011	180,719	6,241,927	34,752	32	28,183	7.6%
2012	180,719	6,672,878	36,923	32	27,701	7.4%
2013	180,726	6,891,612	37,862	32	29,222	6.9%
2014	182,020	7,045,829	38,509	32	29,268	6.4%
2015	182,965	7,377,992	40,453	33	29,118	6.0%
2016	182,385	-	-	33	28,865	5.0%
2017	181,825	-	-	33	28,240	4.9%

Sources:

Note: Population figures are derived as follows: 2008 - 2015 Bureau of Economic Analysis, 2016/2017 - U.S. Census Bureau estimates.

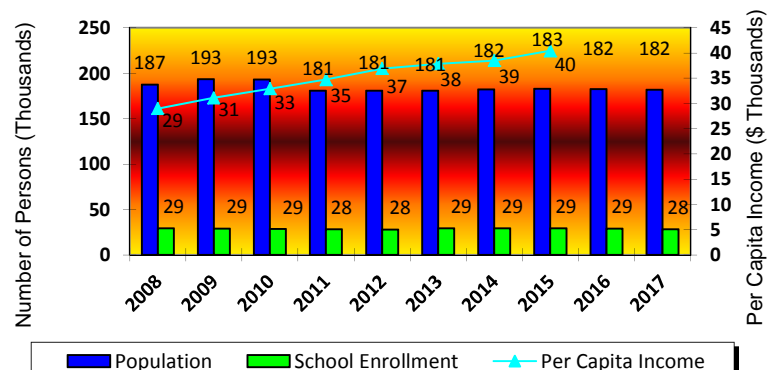
Personal Income: 2008-2015 Bureau of Economic Analysis; 2016 - 2017 were not available at year-end.

Per Capita Income: 2008 - 2015 Bureau of Economic Analysis; 2016 - 2017 were not available at year-end.

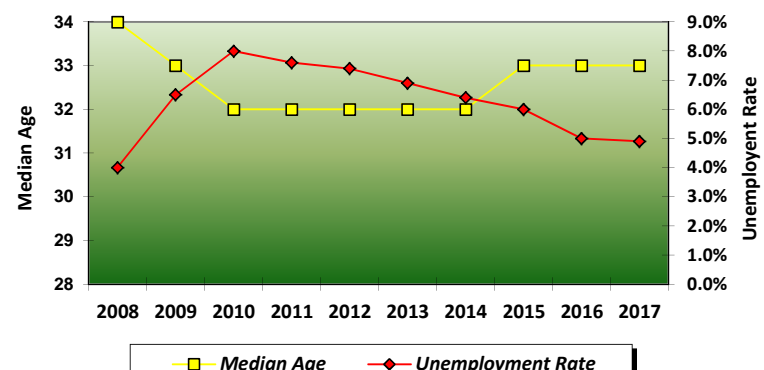
Unemployment Rate: 2008 - 2009 Virginia Employment Commission; 2010-2014 Virginia Workforce Connection; 2015-2017 Virginia Labor Market Information

Median Age: U.S. Census Bureau

Population, School Enrollment, Per Capita Income



Median Age - Unemployment



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

	2017		2008	
	Employees	% of Total City Employment	Employees	% of Total City Employment
Huntington Ingalls Industries, Inc.	10,000 - 25,000	19.73%	10,000 - 20,000	17.13%
U.S. Department of Defense	5,000 - 12,500	9.86%	1,000 - 5,000	3.43%
Riverside Regional Medical Center	1,000 - 5,000	3.38%	1,000 - 5,000	3.43%
Newport News Public Schools	1,000 - 5,000	3.38%	1,000 - 5,000	3.43%
City of Newport News	1,000 - 5,000	3.38%	1,000 - 5,000	3.43%
Ferguson Enterprises Inc.	1,000 - 5,000	3.38%	1,000 - 5,000	3.43%
Christopher Newport University	1,000 - 5,000	3.38%	1,000 - 5,000	3.43%
Canon	1,000 - 5,000	3.38%	-	-
RMH Teleservices Inc	1,000 - 5,000	3.38%	-	-
Walmart	1,000 - 5,000	3.38%	-	-
APAC Customer Services	-	-	1,000 - 5,000	3.43%
U.S. Department of Army and Air Force	-	-	1,000 - 5,000	3.43%
Total	23,000 - 77,500	56.65%	18,000 - 60,000	44.54%

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									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
General Fund:										
General Government Administration:										
Legislative:										
City Council	7	7	7	7	7	7	7	7	7	7
City Clerk	4	4	4	4	5	5	5	5	5	5
General and Financial Administration:										
City Manager	10	10	18	18	18	18	18	21	21	23
Human Resources	20	16	15	15	18	19	19	18	18	20
City Attorney	18	18	18	18	18	18	18	18	18	19
Internal Auditor	6	6	6	6	6	6	6	6	6	7
Commissioner of the Revenue	42	42	40	40	40	40	40	42	42	40
Real Estate Assessor	20	21	21	22	22	22	22	23	23	23
City Treasurer	34	34	33	33	33	33	33	34	34	35
Finance	22	18	18	18	18	18	18	18	18	19
Budget and Evaluation	7	7	7	7	7	7	7	7	7	7
Office of Self-Insurance (General Liability Insurance Fund)	6	6	6	6	6	6	6	9	9	9
Purchasing	18	19	21	20	23	23	23	23	23	24
Information Technology	58	57	57	56	57	57	58	63	63	66
Customer Service - 311 Call Center*	-	-	10	10	6	-	-	-	-	-
Communications*	25	24	-	-	-	-	-	-	-	-
Board of Elections:										
Registrar	5	5	5	5	5	5	5	5	5	5
Total General Government Administration	302	294	286	285	289	284	285	299	299	309
Judicial administration:										
Courts:										
Circuit Courts	7	7	6	6	6	6	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	24	23	23	24	24	27	27	27
Court Services	2	2	2	2	2	2	2	2	2	2
Commonwealth's Attorney	52	49	49	49	49	49	49	50	50	51
Total Judicial Administration	91	88	87	86	86	87	88	92	92	93
Public Safety:										
Law Enforcement and Traffic Control:										
Police Department	594	588	586	586	586	586	587	593	593	578
Emergency Communications	-	-	-	-	-	-	-	-	-	4
Fire and Rescue Services:										
Fire Department	381	380	379	380	380	382	382	371	371	372
Correction and Detention:										
Sheriff	219	219	215	215	217	217	217	222	222	202
Adult Corrections**	-	-	60	60	60	61	62	69	69	73
Juvenile Detention	138	130	126	126	125	130	128	143	143	168
Inspections:										
Codes Compliance	39	38	38	38	38	39	39	40	40	41
Total Public Safety	1,371	1,355	1,404	1,405	1,406	1,415	1,415	1,438	1,438	1,438
Public Works:										
Engineering	70	68	69	78	78	84	85	93	93	98
Public Works Administration	185	185	156	152	157	158	158	170	170	167
Total Public Works	255	253	225	230	235	242	243	263	263	265
Welfare:										
Human Services	382	377	377	387	391	391	391	397	397	396
Office of Youth Development	-	-	-	-	-	-	-	-	-	9
Total Welfare	382	377	377	387	391	391	391	397	397	405
Parks and Library:										
Parks and Recreation	108	108	106	108	107	105	106	117	117	122
Parks and Recreation Revolving Fund	80	80	83	93	94	95	95	98	98	95
Library	51	52	52	53	56	56	57	61	61	67
Total Parks, Recreation and Library	239	240	241	254	257	256	258	276	276	284
Community Development:										
Planning and Community Development:										
Development	20	19	17	17	17	17	18	20	20	20
Planning	13	13	12	12	13	13	13	14	14	15
Total Community Development	33	32	29	29	30	30	31	34	34	35
Total General Fund	2,673	2,639	2,649	2,676	2,694	2,705	2,711	2,799	2,799	2,829
OTHER OPERATING FUNDS										
Public Utilities Fund	352	352	353	353	365	365	365	370	370	381
Vehicle & Equipment Services Fund	40	41	39	39	39	40	40	40	40	43
Solid Waste Revolving Fund	71	66	64	64	61	61	66	66	66	68
Wastewater Fund	108	104	100	99	97	95	87	87	87	76
Stormwater Management Fund	105	98	90	88	84	81	79	79	79	84
Pension Fund	-	6	6	6	6	6	6	7	7	7
Economic and Industrial Authority	5	5	5	5	5	5	5	5	5	5
Parking Authority Fund	2	2	2	2	2	2	2	2	2	2
Law Library	1	1	1	1	1	1	1	2	2	2
Schools	3,934	3,904	3,921	3,937	4,026	4,076	4,138	4,296	4,293	4,420
Peninsula Regional Animal Shelter	11	11	11	11	-	-	-	-	-	-
Total Other Operating Funds	4,629	4,590	4,592	4,605	4,686	4,732	4,789	4,954	4,951	5,088
TOTAL CITY EMPLOYEES	7,302	7,229	7,241	7,281	7,380	7,437	7,500	7,753	7,750	7,917

Source: City Adopted Budget.

*The Communications Department was created in FY 2015 and will include the existing 311 Call Center, Video Productions Services from the City Manager's Office and Graphics division from Purchasing

**The Newport News City Farm (Adult Corrections) ceased operations in FY 2016. Four positions from Adult corrections were transferred to Sheriff, 24 positions were transferred to Public Works, and two positions were transferred to Vehicle and Equipment Services

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

Function/Program	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
General Government										
Retail Sales (Millions)	2,329	2,278	2,212	2,242	2,202	2,109	1,893	1,923	1,873	2,021
Police										
Calls for Service	148,561	75,150	154,111	170,317	169,877	255,267	250,126	251,346	179,975	219,634
Number of Offenses	20,236	9,855	19,291	20,601	20,888	22,516	21,386	23,905	30,787	23,269
Adult Arrests	12,716	4,997	13,156	15,182	9,804	14,759	15,065	15,093	15,496	17,477
Traffic Summonses	17,828	17,011	22,700	29,974	28,383	32,961	15,682	26,611	22,944	23,417
Traffic Accidents	3,020	1,490	2,924	2,756	2,641	2,517	2,480	2,510	3,068	3,484
Fire										
Fire Calls	-	-	-	-	-	-	-	-	12,718	12,569
EMS Calls	-	-	-	-	-	-	-	-	21,492	24,854
Structure Fires	-	-	-	-	-	-	-	-	517	430
Emergency Medical Service/Rescue*	19,520	22,938	22,728	27,574	22,017	24,674	22,190	21,845	-	-
Public Assistance*	1,120	1,045	1,939	1,660	1,651	1,461	1,569	1,483	-	-
Good Intent Calls*	2,225	1,817	1,817	150	1,685	1,305	1,309	1,457	-	-
False/Alarm / Alarm Malfunction*	1,488	1,381	1,436	778	1,375	1,348	1,418	1,428	-	-
Hazardous Conditions*	2,093	109	564	572	637	930	720	879	-	-
All Fires*	622	543	578	610	639	704	870	776	-	-
Explosions*	5	7	7	7	14	18	2	18	-	-
Weather Event/Other*	23	9	10	4	57	51	27	16	-	-
Sheriff										
City Jail Capacity	300	300	300	300	300	300	300	248	248	248
Codes Compliance										
Building Permits Issued	1,363	1,372	1,545	1,589	1,985	2,155	1,759	1,821	2,079	2,203
Residential Construction	195	222	219	230	222	340	262	198	91	130
Commercial Construction	72	55	76	69	49	102	81	37	53	59
Waterworks										
Gallons Delivered Per Day (Millions)	33	34	35	35	35	36	40	40	42	44
Meters Connected**	136,914	134,191	133,722	133,380	132,743	132,439	134,403	131,924	128,614	124,956
Public Works										
Potholes Repaired	18,494	23,208	19,148	18,148	15,305	15,125	19,216	17,675	7,742	9,697
Streets Resurfaced (Miles)	11	10	12	8	7	8	9	9	10	11
Recyclables collected (Tons)	6,151	6,300	6,901	7,325	6,957	6,698	7,641	7,463	9,924	10,538
Parks and Recreation										
Park Vistors (Millions) (All Parks)	4	4	4	4	4	4	4	4	4	4
Celebration of lights vistors	111,097	110,679	104,617	103,491	109,700	112,854	93,428	91,665	103,341	103,400
Tourism visitor inquiries	241,311	152,252	78,795	77,224	79,088	87,732	80,206	79,610	108,412	129,495
Tourism web site visits****	380,233	241,722	200,132	198,520	215,849	147,875	126,754	138,048	117,588	116,109
Vistor guides distributed	200,000	200,000	200,000	200,000	165,000	150,000	150,000	150,000	150,000	150,000
Library										
Circulation Transactions	777,457	788,356	887,044	951,241	1,009,939	1,062,759	941,934	847,367	767,131	715,613
Reference	85,349	106,329	152,153	321,102	174,356	178,117	140,623	140,071	129,196	126,182
Computer use	241,301	236,361	302,465	256,929	244,971	240,257	235,080	231,601	206,687	176,168
Program attendance	20,848	22,442	14,985	16,272	26,206	14,526	24,552	14,490	16,594	12,323
Visitor count***	737,748	890,717	890,717	829,290	889,407	759,840	814,129	997,912	973,869	942,224
Meeting room use	1,228	1,294	1,872	916	830	1,126	1,193	1,218	1,223	1,330
Schools										
Average Daily Students	28,240	28,865	29,118	29,268	29,222	27,701	28,183	28,610	29,023	29,441

Sources: Various city departments.

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

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

***Library: New counters installed FY2011

****Starting FY2013 includes mobile web site visits / Starting FY2017 includes tablet website visits

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

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Function/Program										
Police										
Patrol Units	247	242	238	238	245	237	253	240	224	221
Boats	3	3	3	2	3	3	2	2	1	1
Fire										
Stations	11	11	11	11	11	11	11	11	10	10
Fire Trucks	25	25	25	25	26	26	23	23	25	24
Ambulances	18	18	17	17	17	17	17	17	17	16
Boats	2	2	2	2	2	2	2	2	2	2
Engineering										
Streetlights	20,424	20,586	21,387	20,308	20,125	20,033	19,780	19,645	19,616	20,411
Traffic Lights	263	261	261	257	253	253	255	253	253	258
Parks and Recreation										
Parks	37	37	37	36	36	35	35	35	35	32
Acreage	8,697	8,697	8,697	8,697	9,120	9,119	9,119	9,119	9,119	9,119
Athletic Fields	154	154	154	154	97	97	97	97	97	102
Mini-parks	3	3	3	3	3	3	3	3	3	3
Beach/Waterfront Areas	8	8	8	8	8	8	8	8	8	4
Boat Ramps	7	7	7	7	7	7	7	7	9	5
Golf Courses	2	2	2	2	2	2	2	2	2	2
Swimming Pools	3	3	3	3	3	3	3	3	3	3
Tennis Courts (free)	57	57	57	57	57	57	57	57	65	56
Tennis Courts (pay)	24	24	24	24	24	24	24	24	20	20
Squares	3	3	3	3	3	3	3	3	3	2
Library										
Books	233,517	322,888	260,618	268,173	287,595	273,640	325,370	324,531	340,733	333,176
Paperbacks	12,628	15,609	17,520	17,895	17,497	17,374	19,914	21,276	21,173	20,382
Videos/DVD's	45,649	41,839	39,898	36,793	32,714	26,859	26,270	21,259	19,910	15,128
Cassettes/Compact Disks	21,543	20,826	21,455	20,910	20,362	20,960	22,911	20,605	16,359	12,453
Microfilm	0	1	1	1	-	-	-	-	-	5,320
Waterworks										
Miles of Pipe	1,758	1,754	1,754	1,746	1,748	1,746	1,798	1,780	1,786	1,785
Fire Hydrants	11,122	11,069	11,113	10,987	10,939	10,874	10,821	10,700	10,650	10,129
Public Works										
Refuse Carts	82,251	76,654	76,654	77,619	78,354	79,056	82,023	76,607	76,729	76,725
Streets (miles)	505	510	505	505	505	666	505	505	504	504
Lanes (miles)**	1,184	1,203	1,193	1,193	1,191	1,191	1,191	1,184	1,183	1,183
Sanitary sewers (miles)*	583	584	584	699	709	709	554	572	572	708
Storm sewers (miles)*	651	599	607	717	542	542	542	487	487	659
Pump Stations	183	183	183	182	180	185	177	179	179	175
Schools										
Early Childhood centers	4	4	4	4	4	4	4	4	4	4
Elementary schools	24	24	24	24	24	24	25	26	26	26
Middle schools	7	7	7	7	7	7	7	7	7	8
High schools	5	5	5	5	5	5	5	5	5	5
Middle-High combo schools	1	1	1	1	1	1	1	1	1	1

Sources: Various city departments.

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

** For previous years beginning in 2012, Non-VDOT eligible roads were included in Lane Miles. The correct totals have been provided for FY16, FY17, and include corrected totals for FY12, FY13, FY14, and FY15.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newport News, Virginia (the "City"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 21, 2017. Our report includes a reference to other auditors who audited the financial statements of the Peninsula Airport Commission, a component unit of the City. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and one instance required to be reported under the *Specifications for Audits of Counties, Cities, and Towns*, which is described in the accompanying schedule of findings and questioned costs as item 2017-001.

City's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Richmond, Virginia
November 21, 2017

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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Newport News, Virginia's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Newport News, Virginia's (the "City") major federal programs for the year ended June 30, 2017. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

Richmond, Virginia
November 21, 2017

CITY OF NEWPORT NEWS, VIRGINIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

<u>Federal Granting Agency/Recipient State Agency</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
DEPARTMENT OF AGRICULTURE		
Pass-through Payments:		
Department of Social Services:		
State Administrative Matching Grants for Food Stamp Program (765-460-03; 765-452-13)	10.561	\$ 3,408,466
Department of Agriculture:		
Pilot projects - SNAP	10.596	19,522
School Lunch Program-Commodities	10.555	\$ 8,604
Department of Education:		
School Breakfast Program (777-360-01; 777-360-03)	10.553	120,284
Total Child Nutrition Cluster		128,888
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
Direct Payments:		
Community Development Block Grant Program		
Community Development Block Grants (B11-MC-51-0015, B12-MC-51-0015)	14.218	927,017
Pass-through Payments:		
Department of Housing & Community Development:		
Neighborhood Stabilization Program (08-NSP-05)	14.228	60,927
Home Investment in Affordable Housing (M-07-MC-51-0202, M13-MC-51-0202)	14.239	297,633
Economic Development Initiative Special Projects (B08-SP-VA-0709)	14.251	779
Choice Neighborhoods Planning (FR-5900-N-14)	14.892	234,994
DEPARTMENT OF THE INTERIOR FISH AND WILDLIFE SERVICE		
Pass-through Payments:		
VA Department of Health:		
Clean Vessel Act (VA V-8-D-1)	15.616	1,435
DEPARTMENT OF JUSTICE		
Direct Payments -		
Office of Justice Programs:		
Public Safety Partnership & Community Policing Grants (2010-CK-WX-0248)	16.710	221,256
Edward Byrne Memorial Justice Assistance Grants (2010-DJ-BX-0899)	16.738	292,792
Violence Prevention Demonstration Program 2013-MU-FX-K002	16.123	60,661
Law Enforcement and Missing Persons	16.015	32,115
Pass-through Payments:		
Department of Criminal Justice Service:		
Victims of Crime Act (VOCA) (140-390-01)	16.575	325,017
Equitable Sharing Program	16.922	80,168
Office of Juvenile Justice & Delinquency Prevention		
Part E-Developing, Testing and Demo Prom New Prgms (2009-JL-FX-0291)	16.541	16,425
DEPARTMENT OF TRANSPORTATION		
Pass-through Payments:		
Va Department of Transportation:		
Highway Planning & Construction	20.205	4,559,400
Highway Planning & Construction--Safe Routes	20.205	29,013
Va Department of Motor Vehicles:		
DMV Select Enforcement	20.607	57,581
Totals, page 1		\$ 10,754,089

CITY OF NEWPORT NEWS, VIRGINIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

<u>Federal Granting Agency/Recipient State Agency</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
DEPARTMENT OF COMMERCE		
Direct Payments:		
Arrangements for Interdisciplinary Research Infrastructure GCTC StormSense Cities Project (70NANB16H277)	11.619	\$ 36,141
DEPARTMENT OF DEFENSE		
Direct Payments:		
Joint Land Use Study - Joint Base Langley Eustis JLUS	12.610	108,642
DEPARTMENT OF HEALTH & HUMAN SERVICES		
Pass-through Payments:		
Department of Social Services:		
Affordable Care Act MIECH Visiting Program	93.505	300,206
Promoting Safe and Stable Families (765-469-01)	93.556	116,588
Temporary Assistance for Needy Families (765-452-01; 765-460-03)	93.558	3,011,479
Refugee and Entrant Assistance (765-460-03; 765-491-02)	93.566	139,561
Low-Income Home Energy Assistance (765-460-03)	93.568	282,658
Child Care and Development Block Grant Act of 1990 (765-452-15)	93.575	\$ (1,291)
Child Care and Development Mandatory Matching Funds (765-460-03)	93.596	<u>418,449</u>
Total Child Care Cluster		417,158
Chafee Education and Training Vouchers Program (765-469-01)	93.599	5,383
Adoption Incentive	93.603	9,131
Child Welfare Services State Grants (765-460-06)	93.645	3,192
Foster Care - Title IV-E (765-460-03; 765-460-06; 765-469-01)	93.658	1,653,490
Adoption Assistance (765-460-03; 765-469-03)	93.659	1,832,827
Social Services Block Grant (765-460-03; 765-468-02; 765-469-01)	93.667	1,940,567
Independent Living (765-460-03; 765-469-01)	93.674	20,081
State Children's Insurance Program (765-460-03)	93.767	140,540
Medical Assistance Program - Title XIX (765-460-03)	93.778	4,368,544
SOCIAL SECURITY ADMINISTRATION		
Direct Payments:		
Social Security Incentive Program	96.006	3,224
DEPARTMENT OF HOMELAND SECURITY		
Direct Payments:		
FEMA Dept. of Homeland Security (EMW-2012-PU-APP-00134)	97.056	81,788
FEMA Dept. of Homeland Security (EMW-2012-FH-084)	97.083	60,588
Pass-through Payments:		
Department of Emergency Management:		
Emergency Management Performance Grants (127-775-01)	97.042	107,880
Homeland Security Grant	97.067	<u>92,523</u>
Totals, page 2		<u>14,732,191</u>
Grand Total		<u>\$ 25,486,280</u>

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

(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 reports in accordance with the Uniform Guidance. The information in this Schedule is presented on the modified accrual basis of accounting in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The City did not elect to use the 10% indirect cost rate.

The City operates on a contractual basis with its grant partners except for its relationship with NNRHA. NNRHA is a sub-recipient of the City for the Community Development Block Grant Program (CFDA number 14.218) and the Home Investment in Affordable Housing Program (CFDA number 14.239). The amounts passed through to NNRHA for the Community Development Block Grant Program and the Home Investment in Affordable Housing Program were \$927,017 and \$297,633 respectively.

(2) Relationship to Basic Financial Statements

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

	Federal expenditures
General Fund	\$ 17,090,314
Special Revenue Funds Capital Projects	4,560,179
Special Revenue Funds	<u>3,835,787</u>
Total expenditures	<u><u>\$ 25,486,280</u></u>

City of Newport News, Virginia

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

A. Summary of Auditor's Results

1. The type of report issued on the basic financial statements: **Unmodified opinion**
2. Significant deficiencies in internal control disclosed by the audit of the financial statements: **None reported**
3. Material weaknesses in internal control disclosed by the audit of financial statements: **None**
4. Noncompliance, which is material to the financial statements: **None**
5. Significant deficiencies in internal control over major programs: **None reported**
6. Material weaknesses in internal control over major programs: **None**
7. The type of report issued on compliance for major programs: **Unmodified opinion**
8. Any audit findings which are required to be reported in accordance with 200.516(a) of the Uniform Guidance: **None**
9. The programs tested as major programs were:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.561	Supplemental Nutrition Assistance Program (SNAP) Cluster
14.218	Community Development Block Grants (CDBG)
93.575/93.596	Child Care and Development Fund Cluster
16.575	Crime Victim Assistance
16.738	Edward Byrne Memorial Justice Assistance Grant Program

10. Dollar threshold used to distinguish between type A and type B programs: **\$764,588**
11. City of Newport News qualified as a low-risk auditee under in accordance with 200.516(a) of the Uniform Guidance: **Yes**

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

None

C. Findings and Questioned Costs Relating to Federal Awards:

None

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

2017-001: Social Services Systems Controls (DSS) – Non-material Non-compliance

Condition: The City did not review every employee's access annually.

Criteria: Per the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, Section 3-15 *Information Systems Security Controls Required Audit Procedures*, "Each Local Security Officer (LSO) should be annually reviewing all employees' access to each application with employees' supervisors to ensure that the access is properly aligned with job responsibilities."

Cause: The City did not review every employee's access annually due to personnel constraints and a lack of a fully functioning systematic process.

Effect: Non-compliance may result in inadequate information systems security controls and lead to a disruption in operations.

Questioned Costs: Non-financial finding.

Recommendation: The City should implement corrective action aimed at ensuring an annual review of each employee's access.

Views of Responsible Officials: The Department of Human Services has an existing Employee Internal Program Audit process with a questionnaire on application access that the Local Security Officer (LSO) distributes to supervisors to complete for their respective employees. Completed questionnaires are reviewed by the LSO and the employees' supervisors. The IT Administrator and the LSO will enhance the process so that a defined, manageable percentage of the reviews will be completed each quarter. This will also allow the IT Administrator and the LSO to regularly monitor the completion of the reviews to ensure that all employee accesses are done annually with proper alignment with job responsibilities.

E. Status of Prior Year Findings:

2016-001: Significant Deficiency and Non-Compliance – Reporting – Finding not repeated

2016-002: Significant Deficiency and Non-Compliance – Special Tests and Provisions – Required Certifications and HUD Approvals – Finding not repeated

2016-003 Social Services Business Continuity Plan (COOP) – Finding not repeated



WHITETAIL CROSSING

WENDY KLEMPERER

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EVOKE ELEGANCE, AGILITY, AND THE SHEER FORCE OF NATURE – REMARKABLE QUALITIES OF DEER.

COMPREHENSIVE ANNUAL FINANCIAL REPORT 2017

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

CITY OF NEWPORT NEWS, VIRGINIA

