

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2011



CITY OF NEWPORT NEWS, VIRGINIA



# CITY OF NEWPORT NEWS, VIRGINIA

## Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2011

Prepared by the  
Department of Finance

2400 Washington Avenue  
Newport News VA 23607

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# CITY OF NEWPORT NEWS, VIRGINIA

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# City of Newport News

Virginia 23607

2400 Washington Avenue

(757) 926-8411

Fax (757) 926-3503

Office Of The City Manager

December 8, 2011

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

The Honorable City Council:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Newport News, Virginia (the City or Newport News) as of and for the fiscal year (FY) ended June 30, 2011. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Cherry, Bekaert & Holland, LLP, Certified Public Accountants, have issued an unqualified ("clean") opinion on the City of Newport News' financial statements for the year ended June 30, 2011. 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. The MD&A complements this letter of transmittal and should be read in conjunction with it.

## *Profile of the Government*

The City of Newport News, incorporated in 1896, is centrally located on the eastern coast of Virginia. It currently occupies 69 square miles and serves a population of 180,719. Newport News is the fourth largest city by acreage and the fifth largest city by population in the Commonwealth of Virginia.

The City of Newport News has a council-manager form of government. Policy-making and legislative authority are 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

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

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

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

Those independent agencies that we excluded are Newport News Redevelopment and Housing Authority, Office of Human Affairs and the Hampton-Newport News Community Services Board.

The Council is required to adopt a final budget no later than the fifteenth day of the last month of the fiscal year. This annual budget serves as the foundation for the City's financial planning and control. The budget is prepared by fund, function (e.g., public safety), and department (e.g., police).

### ***Local economy***

Newport News is centrally located to serve Eastern Virginia and the East Coast, with convenient access to both the industrial Midwest and the southeast Sunbelt. Newport News is part of the Hampton Roads Metropolitan Statistical Area (MSA), the 37<sup>th</sup> largest market in the United States. The City's location on the world's greatest natural harbor provides a window of opportunity onto the international marketplace. The City has a diverse economic base with manufacturing, corporate offices, retail, business and consumer services, distribution and one of the world's major shipbuilding centers, Huntington Ingalls Industries.

The City's development activities are executed primarily through the Economic and Industrial Development Authorities (E/IDA). The core mission of the E/IDA is the growth and diversification of the tax and employment base of the City. This mission is accomplished by promoting Newport News as an ideal location for business start-up, relocation, expansion and capital investment. The Virginia Chamber of Commerce recognized the EDA in December 2010 with the 2010 Virginia Torchbearer Award for the First Congressional District for the Canon Expansion Project. The Torchbearer Awards identify the economic development organizations, local governments and educational institutions that have made a creative and significant contribution to Virginia's economy for new business attraction, business retention and expansion, job creation, foreign investment and revitalization projects.

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The continued implementation of the 2005 Base Realignment and Closure (BRAC) provided an influx of approximately 2,300 workers to Fort Eustis, as a result of the closing of Fort Monroe. Fort Eustis is now the headquarters for the Training and Doctrine Command and Joint Task Force-Civil Support. Preparation for the increased senior-level personnel presence resulted in \$168 million investment in new construction and renovations on the base.

Northrop Grumman Shipbuilding completed the spin-off of its shipbuilding division, Huntington Ingalls Industries, on March 31, 2011. Formerly known as Northrop Grumman Shipbuilding, Huntington Ingalls, like Northrop Grumman, will design, build, and maintain ships for the United States Navy and other government and private clients.

A new Apprentice School and ancillary use complex for Huntington Ingalls Industries is being actively planned for the downtown Newport News area. This development will provide a campus-like setting including the 80,000 square-foot Apprentice School building, 30,000 square-feet of retail space, a parking garage, and 175 apartments available to Apprentice School students, shipyard workers, and the general public. The new Apprentice School building will accommodate all students, eliminating the need to hold classes at other locations. This development is expected to revitalize downtown Newport News and entice more people and businesses to move into the area.

Executives from Canon Virginia, Canon USA, and Canon Inc., along with City and Commonwealth leadership and the EDA, celebrated Canon Virginia's 25-year legacy of excellence in manufacturing and service in Newport News.

Icelandic USA, America's largest importer of frozen fish for the foodservice industry, announced and commenced its plans to add more than 87,000 square feet to their existing headquarters in Oakland Industrial Park. Icelandic's investment in the expansion is valued at \$9 million.

Orion Air Group, one of the world's leading operators of business aircraft, completed construction on its \$4 million hangar facility at AirCommerce Park, Newport News/Williamsburg International Airport. Orion's business lines include aircraft charter and management, sales and leasing, aviation insurance and financial services, aircraft maintenance and modifications, with both government and commercial customers. The new building, which contains a 12,000 square-foot corporate office with an adjoining 22,000 square-foot hangar, was completed in December 2010. The project included retention of 57 jobs and creation of 51 new high-skill, high-wage jobs to support its operations and was a collaborative effort by the Peninsula Airport Commission, the Virginia Economic Development Partnership, the Virginia Department of Business Assistance, the Hampton Roads Economic Development Alliance, and the EDA.

The United States Department of Energy held a groundbreaking ceremony in September 2010 to mark the beginning of construction on the new 70,000 square-foot Technology and Engineering Development Facility at the Thomas Jefferson National Accelerator Facility (Jefferson Lab). Construction is anticipated to be finished by the end of 2011. The new building is a part of Jefferson Lab's \$73.2 million upgrade.



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

Custom Vinyl Products, a manufacturer of windows and sliding glass doors, expanded its business by completing construction of a new 31,000 square foot manufacturing facility in Oakland Industrial Park. The company currently has 32 employees and is operating out of its newly constructed building. The expansion project represents a capital investment of approximately \$3.6 million.

Wal-Mart received approval of its conditional use permit application, allowing it to proceed with plans to build a new store at the corner of Jefferson Avenue and Mercury Boulevard. The store is projected to be approximately 156,000 square feet, and will include a full-service grocery store, deli, bakery, garden center, and pharmacy. Wal-Mart anticipates generating 200-300 new jobs with its new store, which is slated to open in early 2013. Wal-Mart also plans to construct significant traffic improvements for improved access to the site. This investment will significantly aid in the revitalization of the Newmarket area.

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

The City of Newport News is again below the national averages for unemployment rates. During FY 2011, the national unemployment rate was at 9.3%, while the City's rate decreased from 8.0% to 7.6%.

### ***Long-term financial planning***

The City Code requires the City Manager to submit to City Council, no later than November 1 of each year, a multi-year Capital Improvements Plan (CIP). The FY 2012 to FY 2016 CIP was approved by City Council on January 25, 2011. The CIP reflects the vision and priorities of the City Council in terms of the need for the construction and maintenance of those buildings, infrastructure improvements and services deemed to be capital expenditures of the City. Although intended to be a commitment to a multi-year capital needs program, the CIP is fundamentally a planning document and is therefore subject to annual modification and amendment as changing priorities, availability of funding and other factors create the need for such revisions. Most projects in the CIP are funded by General Obligation Bonds issued by the City for 20 years with level annual principal payments. The annual principal and interest payments (debt service) are budgeted in the City's annual operating budget. The General, School, Wastewater, Stormwater, Solid Waste, and Marina Funds each pay a proportionate share of principal and interest payments. (The Public Utility Fund pays the entirety of the debt service related to its capital projects.) The FY 2012 Budget calls for the General Fund to pay 82%, or \$46,755,473, of the total debt service budget of \$57,020,173.

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

The City has adopted policies that guide capital improvement planning and the issuance of long-term debt. These policies are intended to (1) help the City maintain or improve its bond rating, (2) manage its capital investments in a manner that does not create an undue financial burden on its taxpayers, and (3) keep annual changes in debt service obligations at levels that do not interfere with the City's ability to provide municipal and educational services to its citizens. The following are the City's Capital Financing and Debt Management Policies:

It is the goal of the City to reduce its debt burden to 3.0% or less by FY 2012. Debt burden is defined as the ratio of outstanding general obligation debt and capital lease obligations divided by the value of the total taxable real and personal property in any given tax year. At the end of FY 2011 and FY 2010, the debt burden was 2.13% and 2.07%.

It is the goal of the City to finance no less than twenty percent (20%) of its CIP spending with cash capital by FY 2012. For FY 2012, the cash capital ratio is 23.3%.

Because debt service obligations are primarily funded from school and municipal revenues received through the Operating Budget, the City's intent is that the ratio of debt service obligations to General Fund revenue shall not exceed nine and one-half percent (9.5%) in any fiscal year. At the end of FY 2011, the ratio was 9.28%.

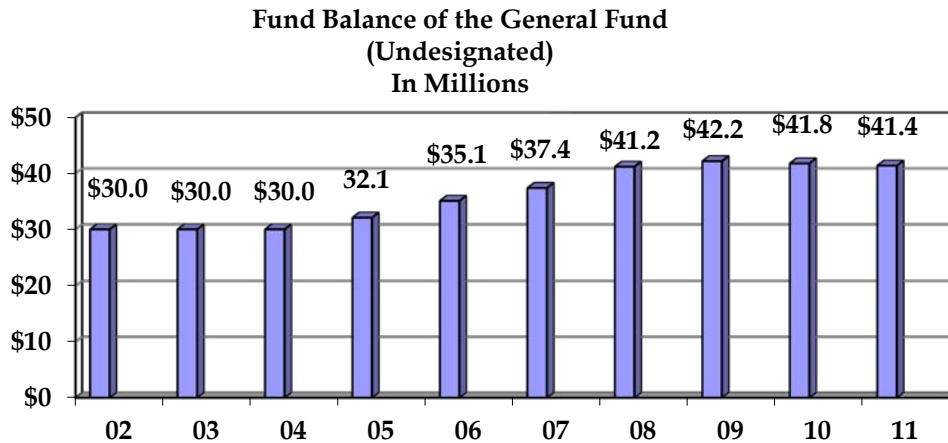
The City's intent is to structure principal payments when issuing new General Obligation debt, or refinancing existing debt, so that no less than thirty percent (30%) of the outstanding debt is scheduled to be repaid within five years, and that no less than sixty percent (60%) is scheduled to be repaid within 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 shall provide 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.

The General Fund balance is an important element in the financial position of the City. The fund balance is divided into nonspendable, restricted, assigned and unassigned classifications. Nonspendable fund balance includes inventories, prepaid amounts, assets held for resale and long-term receivables. Restricted fund balance includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law. Assigned fund balance includes amounts which the City intends to use for specific purposes but are not restricted as above. Fund balance is a positive factor when the rating agencies consider bond ratings for the City. At the end of the year, \$15.7 million, \$2.0 million and \$31.3 million have been set aside for nonspendable, restricted and assigned fund balances.

The General Fund expenditures exceeded revenues, including other financial sources, during FY 2011 by \$13.3 million. The unassigned General Fund fund balance, which represents available current financial resources, totaled \$41.4 million at June 30, 2011 (10% of revenues). Uses of the unassigned fund balance are carefully evaluated to ensure that the balance will be sufficient for future needs. A healthy unassigned fund balance allows the City to provide adequate services for citizens, plan for future projects, and retain its sound financial position.

## CITY OF NEWPORT NEWS, VIRGINIA



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

Dependence on strong revenue growth must be cautiously guarded as state and federal revenues continue to make up a smaller percentage of the City's revenue. On the expense side, we expect continuing increases in the cost of health care and pension contributions. With regard to the City's pension fund, a financial plan has been developed for addressing and maintaining adequate pension contributions to ensure that this important financial obligation can be met

The City continues to guarantee the payment of principal and interest for the Peninsula Airport Commission Airport bonds, Series 2001, whose outstanding balance totaled \$4.5 million at June 30, 2011. Additional information regarding the City's debt outstanding and debt administration is provided in the notes to the financial statements and the statistical section contained in this report.

### ***Major Initiatives***

During FY 2011, while experiencing the local impact of the conditions associated with the national recession, the City reviewed its current adopted financial policies to ensure they were comprehensive in accordance with similar practices maintained by comparable communities, within national credit rating agency guidelines, and consistent with best practices employed by high performing public entities. As a result, City Council adopted two policies in October 2010, modifying an existing policy and adding a new enhancement.

The first was to change the existing General Fund Balance Policy. Adopted in 1991, the City's General Fund Balance Policy set the minimum guidelines for the Undesignated Fund Balance to be "*An Undesignated General Fund Balance of not less than 5% of the actual General Fund revenues for the previous fiscal year.*" The actual practice of the City has been to establish an Undesignated General Fund Balance of 10% (which has been near or exceeded since FY 1995). As the City had been successful in reaching the minimum level of 5% for many fiscal years, City Council



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

adopted a revision that formally increased the General Fund Policy rate to 7.5%, with the intention of maintaining the informal goal of 10% annually.

The second action established a Special Reserve Project Fund. While the bond rating agencies look favorably on healthy, unassigned reserves, the use of those same reserves can sometimes be problematic. Any use of the reserves, when there is not a sufficient year-end surplus to cover those funds or repeated use for routine operational costs, can be viewed by the bond rating agencies as “structural imbalance” in the City’s finances. To allow for ready access to prior year surpluses in a manner that does not routinely cause a “structural imbalance”, City Council established the Special Reserve Project Fund. The use of this fund will be for any planned, non-recurring, or emergency needs for five major categories of technical/computer systems, development or redevelopment investments, debt reserves/pre-payment, infrastructure, or emergency related expenditures that do not have a budgetary resource that is readily available, or has a fund balance reserve designation. Uses of the fund will not be limited to these initial categories. The Special Projects Reserve Fund is designated for initial purchases and is not intended or to be used for routine operating costs, contract maintenance, or for other such annual expenses. The initial funding was \$12 million from the existing General Fund Balance Reserves for Undesignated Projects.

The combination of these two actions strengthens the City’s formal policy on setting reserves and provides a strong process for the City’s overall financial management.

### **Other Initiatives and Accomplishments**

**Development** – The following initiatives were completed during FY 2011:

- The official building dedication ceremony for the new Hornsby Tire Company facility was held in August 2010. Relocation of the Hornsby Tire Company will facilitate the development of the forthcoming Southeast Commerce Center (SECC), as well as serve as a model and catalyst for ongoing redevelopment of the entire Southeast Community. Additional efforts for revitalization of the Southeast Community include: progress towards undergrounding of overhead utility lines, construction of the Dr. Martin Luther King, Jr. Plaza, installation and dedication of the world-renowned Richard Hunt “Build a Dream” sculpture, acquisition and demolition of Peddler’s Village for redevelopment, as well as continued negotiations between the Economic Development Authority (EDA) and Tidewater Partners Property and Development, LLC, and its partner, Southeast Commerce Center Associates, LLC to further activities in accordance with the Pre-Development Agreement for the SECC.
- In support of expanding expertise in retail development and to assist in the formulation of a Retail Development Strategy, the City received a multi-area retail study from the Buxton Company. The first focus area studied was the Upper Warwick Corridor. Additional information on focus areas two and three, the Southeast Community and Patrick Henry Corridor, is forthcoming. The robust analytical tool has been utilized to assist businesses within the City, as well as in attraction efforts for regional and national retailers.

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

**Fire** – The following initiatives were completed during FY 2011:

- The Department was able to replace two medical transport units, each costing approximately \$225,000.
- The Department's 13 individual facilities were accepted as Exemplary Environmental Enterprise (E3) participants in the Virginia Environmental Excellence Program by the Virginia Department of Environmental Quality. This recognition is in response to the department's development of an environmental management system to address specific initiatives that enhance sustainability efforts.
- The Brentwood Fire Station #3 (replacing the aging station on Municipal Lane) was under construction during the FY 2011 and completed in early FY 2012. The construction of this new facility was partially funded by a grant award of approximately \$2.6 million through the American Recovery and Reinvestment Act of 2009. This award covered approximately 86% of the cost of construction. Twelve new positions were authorized in January 2011 to staff an additional piece of equipment for this facility.
- Fire Station #9 (Denbigh) is slated for renovation in FY2012. During FY2011, design plans were certified and the project will go to bid for construction in FY2012. The project has an estimated construction cost of \$450,000.
- The Fire Marshal's Office championed a new initiative to train 12 firefighter/medics to perform ancillary duties as fire inspectors. This pilot program requires that the candidates obtain state certification before they are allowed to participate in facility inspections without supervision. This certification is required by the Code of Virginia. The ability to put 12 field employees into the inspection rotation will provide the capability of 2-3 full time employees with a significant cost savings to the City.

**Libraries and Information Services** – The following initiatives were completed during FY 2011:

- The Department received a contribution of \$5,000 from The Wachovia Wells Fargo Foundation and \$2,000 from Bay Port Credit Union in support of the Wickham Avenue Alliance's Youth Leadership Program.
- The Department initiated a new Text-a-Librarian service that allows patrons to pose questions and receive information on their mobile phone from our librarians.

**Police Department** – The following initiatives were completed during FY 2011:

- The Department was able to install 52 in-car video cameras through the federal Justice Assistance Grant (JAG). The cameras were installed in marked police cruisers to be used by the officers according to protocols established by the department.

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

**Public Utilities (Waterworks)** – The following major initiatives and accomplishments occurred during FY 2011:

- In the spring of 2011, construction activities slowed considerably on the Walkers Dam Phase II rehabilitation project as the contractor halted all in-stream to comply with a regulatory requirement established to protect migrating fish traveling up the Chickahominy River. The intent of this Phase II is to restore the dam and appurtenant structures to their original functions for another service life of at least 60 years.
- During 2011, Raftelis Financial Consultants, Inc. (RFC) was engaged by Waterworks to conduct a Comprehensive Cost of Service and Rate Design Study (Study). The primary objective of the Study was to work with staff to: 1) determine the effectiveness of existing rate structures; 2) identify opportunities for improvement; and 3) develop viable rate structure alternatives. Resultant recommendations were approved by City Council and implemented on July 1, 2011. A two-block inclining residential rate structure with a first block “Lifeline Rate” component allowing low usage residential customers to experience a modest increase, a new two-block declining block industrial rate structure (to better balance the cost of service burden placed on industrial customers) and a uniform general rate category (for all other customers - commercial, institutional, apartment buildings, etc.) were all implemented. Meter service fees were also adjusted to better equate to the cost of service related to the customer.

### **Awards**

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Newport News for its comprehensive annual financial report (CAFR) for the year ended June 30, 2010. This was the 32nd consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program’s requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

### **Recognitions**

- The Department of Finance received a Certificate of Achievement for Excellence in Financial Reporting to the City of Newport News Employees’ Retirement Fund for its comprehensive annual financial report for the year ended June 30, 2010. This was the 1<sup>st</sup> year that the City has received this prestigious award.
- The Department of Human Services was recognized by the U.S. Department of Agriculture (USDA) as a Bronze Hunger Champion Award recipient. The award winner demonstrates exemplary service conducting outreach activities and assisting eligible clients to obtain nutrition benefits.

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

- The Department of Libraries was awarded an Honorable Mention in the Heritage Advocate award competition for a project of the Library System's Martha Woodroof Hidden Memorial Collection. The project educated the public about the risks faced by collections and the importance of appropriate care to protect these treasures. The Department of Libraries was one of six organizations nationwide to receive this distinction.
- The Police Department received the National League of Cities 2010 Award for Municipal Excellence in the 150,001-500,000 population category for its outreach efforts with the Hispanic Community. The Police Department implemented a Hispanic outreach initiative that involves Hispanic and other civic leaders, community members and city staff working together to develop a strategic plan for improving the quality of life for the City's Hispanic population.
- The Police Department received a Third Place Award for the Virginia 2010 Law Enforcement Challenge. Celebrating its twenty-second year in Virginia, the Law Enforcement Challenge program promotes professionalism in traffic safety enforcement and encourages agencies to share best practices and programs with each other. The awards are based on entries prepared by the participating agencies that highlight their traffic safety education and enforcement activities in the past calendar year. Judges award points to the agencies in the six areas that comprise a comprehensive traffic safety program: an agency's policies and guidelines, training of officers, incentives and recognition, public information and education, enforcement, and an evaluation of the effectiveness of the agency's efforts.
- The Police Department achieved the Virginia Office of Emergency Medical Services (EMS) acknowledgement for meeting established criteria in implementing guidelines involving emergency medical dispatch. The recognition means that a minimum of 25% of communications' personnel are certified; 100% of Newport News Dispatch personnel are certified. The recognition requires a minimum of one person on staff certified as EMD instructor; Newport News Dispatch has seven staff members who are certified.
- The Department of Public Works was awarded the Platinum Award for the Hampton Roads Sanitation District (HRSD) for demonstrating more than five years of compliance and a commitment to environmental excellence at the Denbigh landfill and compost facility.
- The Department of Public Utilities (Waterworks):
  - Waterworks was awarded the 2010 Platinum Award by the Association of Metropolitan Water Agencies, its highest management award.
  - Waterworks was the first water utility in the state to achieve the E4 designation from the Virginia Department of Environmental Quality. The E4 designation is awarded to a facility with a fully-implemented environmental management system. Additionally, the facility must document that it has committed to

## CITY OF NEWPORT NEWS, VIRGINIA

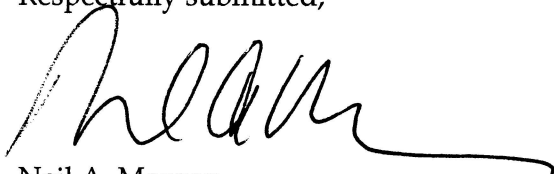
measures for continuous and sustainable environmental progress and community involvement. Exemplifying this commitment, in 2011 Waterworks received the U. S. Environmental Protection Agency's National Partnership for Environmental Priorities (NPEP) award for lead reduction in its Vehicle Shop.

- In 2011, Waterworks won its first ever VA AWWA Public Information Award in the category of Crisis Management/Response for its *Crisis Communication Guidebook*. The guidebook addresses potential crisis situations and the organization's responses, in advance, to media inquiries about those situations. It ensures a crisis is managed by initiating the proper communications message and raises awareness of the criticality of how the message is delivered during an emergency and issue of high concern.

### 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 this Department, and to the many other City departments and agencies that contributed to the completion of this report. We also acknowledge the members of City Council for their leadership, guidance, and establishment of policies for managing financial operations in a sound and progressive manner.

Respectfully submitted,



Neil A. Morgan  
City Manager



Tonya O'Connell  
Acting Director of Finance

# **CITY OF NEWPORT NEWS, VIRGINIA**

## **City Government Officials**

**Year Ended June 30, 2011**

### **City Council**

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

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

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

### **Department of Finance**

Tonya O'Connell ..... Acting Director of Finance

### **Other Officials**

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

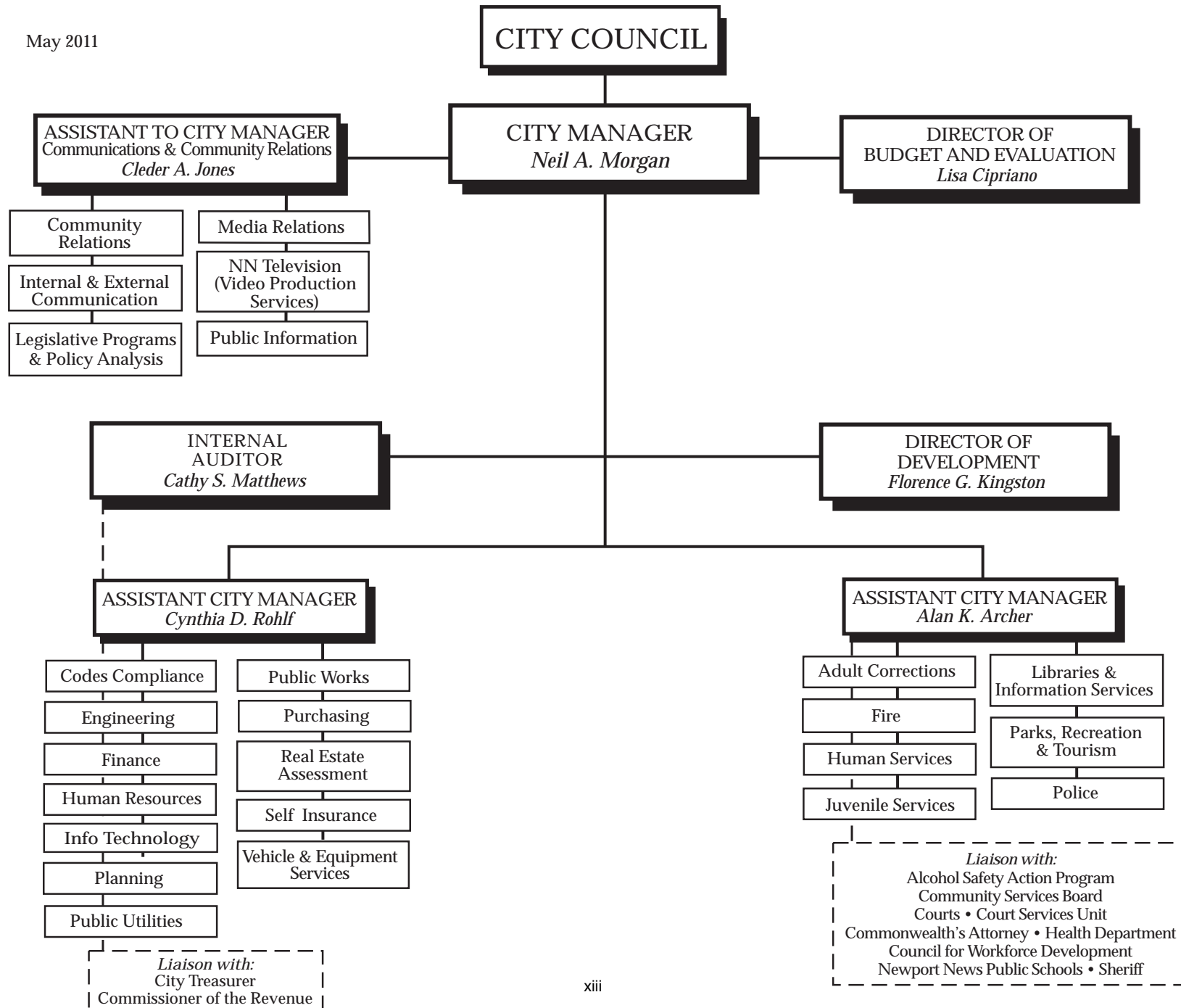
\*Charles T. Vester appointed Real Estate Assessor effective October 1, 2011



# CITY OF NEWPORT NEWS, VA

## Organizational Chart

May 2011



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

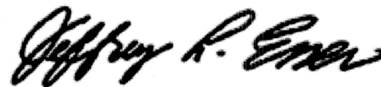
City of Newport News  
Virginia

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2010

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



President



Executive Director



## **Independent Auditors' Report**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the individual and aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newport News, Virginia, (the "City") as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Peninsula Airport Commission, which represents 21% of the respective assets and 3% of the respective operating revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors, whose report thereon has been furnished to us, and our opinions, insofar as it relates to the amounts included for the Peninsula Airport Commission, are based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the individual and aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newport News, Virginia, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 08, 2011, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in

accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the other required supplementary information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is also presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the City. The combining and individual nonmajor fund financial statements and schedules, including the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken 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 express no opinion on them.

*Cheng, Beckert + Holland, L.L.P.*

Richmond, Virginia  
December 08, 2011

## **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, 2011. This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which have the following components: (1) management's discussion and analysis (MD&A), (2) government-wide financial statements, (3) fund financial statements, and (4) notes to the financial statements.

### **FINANCIAL HIGHLIGHTS FOR FISCAL YEAR (FY) 2011**

#### **General Fund**

- At the close of the FY 2011, unassigned fund balance for the General Fund was \$41.4 million or 10% of FY 2011 total General Fund revenues and transfers in.
- General Fund revenues and transfers decreased \$3.7 million or .9% below FY 2010, due to a decline in general property taxes, primarily real property taxes. Expenditures and transfers out increased \$13.9 million, 3.4% higher than last fiscal year. In addition, FY 2011 expenditures and transfers out were .4% more than budget.
- The City's real estate tax rate of \$1.10 per \$100 of assessed valuation remained unchanged for FY 2011. The tax rate on personal property of \$4.25 of assessed valuation remained unchanged.

#### **Governmental Activities**

- The assets of the City, for its governmental activities, exceeded its liabilities at the close of the FY 2011 by \$187.5 million (*net assets*). Of this amount, \$.2 million is restricted. In addition, the City ended the year with negative unrestrictive assets of \$103.1 million. The existence of a deficit is a result of not having assets accumulated in advance for such long-term liabilities as accrued vacation and pension obligations. Accrued vacation is paid as it used or at termination of employment and resources are appropriated each budget year. The pension obligations have accumulated as a result of the City's actual contributions not being equal to the annually required amounts. FY 2011 marks the second year of the City's eight year plan to meet the required contribution.
- The City's total bonded debt decreased by approximately \$30.1 million during the current fiscal year, due to the issuance of \$3.0 million and principal payments of \$33.1 million.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City's government, reporting the City's operations in more detail than the government-wide statements.

## CITY OF NEWPORT NEWS, VIRGINIA

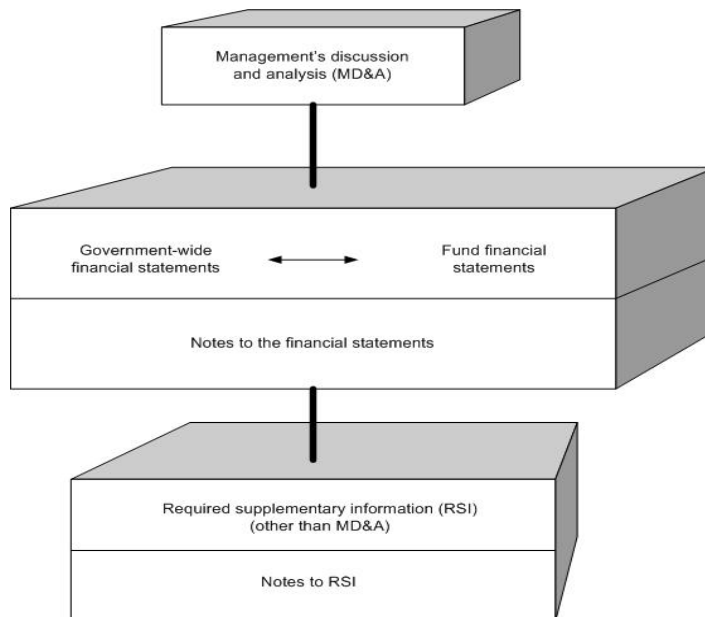
### Management's Discussion and Analysis

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

**Figure A**

#### Required Components of Newport News' Financial Statements



The government-wide financial statements provide both long-term and short-term information about the City's overall financial status. The fund financial statements focus on the individual parts of the City government, reporting the City's operations in more detail than the government-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison (year-to-year or government to government) and enhance the City's accountability.



## 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 Assets and the Statement of Activities, which are the government-wide statements, include all of the government's assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two government-wide statements report the City's net assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are 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, may need to be considered to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, the City is divided into three categories:

- *Governmental activities* – Most of the City's basic services are included here, such as the police, fire, public works, parks, internal service and general administration. Taxes, state and federal grants finance most of these activities.
- *Business-type activities* – The City charges fees to customers to help cover the costs of certain services it provides. The City's water facility is included here.
- *Component units* – The City includes three separate legal entities in its report - the Peninsula Airport Commission, the Economic and Industrial Development Authorities, and the Newport News Public Schools. Although legally separate, these "component units" are important because the City is financially accountable for them, and provides operating funding.

#### Fund Financial Statements

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

The City has three kinds of funds:

- *Governmental funds* – Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out 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.

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

### **Management's Discussion and Analysis**

- *Proprietary funds* – The City maintains two different types of proprietary funds. (1) Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Enterprise funds include the Public Utility Fund. (2) Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for the operation of vehicles and equipment and includes this activity in its government-wide financial statements.
- *Fiduciary fund* – The City is the trustee, or fiduciary, for certain donated funds. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in this fund are used for their intended purpose. The fiduciary funds include the Pension and Other Post Employment Benefits Trust Funds and Agency Funds. These activities are reported in a separate statement of fiduciary net assets. The City excludes this activity from its government-wide financial statements because the City cannot use these assets to finance its operations.

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

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

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

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# CITY OF NEWPORT NEWS, VIRGINIA

## Management's Discussion and Analysis

### Statement of Net Assets

The following table reflects the condensed net assets:

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

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>
Current and other assets	\$ 168.9	190.8	102.1	111.3	271.0	302.1
Capital assets, net	653.7	629.8	399.2	400.0	1,052.9	1,029.8
Total assets	<u>\$ 822.6</u>	<u>820.6</u>	<u>501.3</u>	<u>511.3</u>	<u>1,323.9</u>	<u>1,331.9</u>
Current and other liabilities	\$ 95.5	85.8	61.0	60.5	156.5	146.3
Long-term liabilities	539.6	541.1	165.0	180.5	704.6	721.6
Total liabilities	<u>\$ 635.1</u>	<u>626.9</u>	<u>226.0</u>	<u>241.0</u>	<u>861.1</u>	<u>867.9</u>
Net assets:						
Invested in capital assets, net of related debt	290.4	251.7	252.3	238.5	542.7	490.2
Restricted net assets	0.2	1.0	-	-	0.2	1.0
Unrestricted net assets	<u>(103.1)</u>	<u>(59.0)</u>	<u>23.0</u>	<u>31.8</u>	<u>(80.1)</u>	<u>(27.2)</u>
Total net assets	<u>\$ 187.5</u>	<u>193.7</u>	<u>275.3</u>	<u>270.3</u>	<u>462.8</u>	<u>464.0</u>
Total liabilities and net assets	<u>\$ 822.6</u>	<u>820.6</u>	<u>501.3</u>	<u>511.3</u>	<u>1,323.9</u>	<u>1,331.9</u>

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$462.7 million at the close of fiscal year 2011. By far the largest portion of the City's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure) less accumulated depreciation and less any related outstanding debt used to acquire those assets. The City uses these assets to provide services to its citizens and consequently, these assets are *not* available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

### Governmental Activities

Net assets of the City's governmental activities decreased from \$193.7 million at June 30, 2010 to \$187.5 million at June 30, 2011 as a result of a decrease in net assets of \$6.2 million as shown on the Statement of Activities and in Table 2 on the next page.

# CITY OF NEWPORT NEWS, VIRGINIA

## Management's Discussion and Analysis

### Business-Type Activities

Public Utility is the City's enterprise operation. The net assets of Public Utility increased from \$270.3 million to \$275.3 million. The City generally can only use these net assets to finance the continuing operations of its enterprise operation, Public Utility.

### **Statement of Activities**

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

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

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>
Revenues:						
Program revenues:						
Charges for services	\$ 62.7	63.6	74.5	72.7	137.2	136.3
Operating grants and contributions	45.0	42.7	-	-	45.0	42.7
Capital grants and contributions	3.2	4.7	-	-	3.2	4.7
General revenues:						
Property taxes	231.0	237.0	-	-	231.0	237.0
Other taxes	89.1	88.6	-	-	89.1	88.6
Grants and contributions not restricted to specific programs	48.2	48.6	4.8	-	53.0	48.6
Investment earnings	2.4	2.7	0.2	0.5	2.6	3.2
Miscellaneous	7.8	7.5	-	5.4	7.8	12.9
Total revenues	<u>489.4</u>	<u>495.4</u>	<u>79.5</u>	<u>78.6</u>	<u>568.9</u>	<u>574.0</u>
Expenses:						
General government	41.1	56.5	-	-	41.1	56.5
Judicial administration	7.7	7.1	-	-	7.7	7.1
Public safety	129.7	119.6	-	-	129.7	119.6
Public works	77.3	72.0	-	-	77.3	72.0
Health and welfare	54.1	52.8	-	-	54.1	52.8
Education	118.4	120.0	-	-	118.4	120.0
Parks, recreation and culture	34.4	32.6	-	-	34.4	32.6
Community development	12.7	10.4	-	-	12.7	10.4
Public utility	-	-	64.5	64.0	64.5	64.0
Interest on long-term debt	30.2	23.9	-	-	30.2	23.9
Total expenses	<u>505.6</u>	<u>494.9</u>	<u>64.5</u>	<u>64.0</u>	<u>570.1</u>	<u>558.9</u>
Excess (deficiency) before extraordinary item and transfers	(16.2)	0.5	15.0	14.6	(1.2)	15.1
Extraordinary item:						
Loss on reservoir project termination	-	-	-	(52.6)	-	(52.6)
Transfers	10.0	10.0	(10.0)	(10.0)	-	-
Increase (decrease) in net assets	<u>(6.2)</u>	<u>10.5</u>	<u>5.0</u>	<u>(48.0)</u>	<u>(1.2)</u>	<u>(37.5)</u>
Beginning Net Assets	193.7	183.2	270.3	318.3	464.0	501.5
Ending Net Assets	<u>\$ 187.5</u>	<u>193.7</u>	<u>275.3</u>	<u>270.3</u>	<u>462.8</u>	<u>464.0</u>

## CITY OF NEWPORT NEWS, VIRGINIA

### Management's Discussion and Analysis

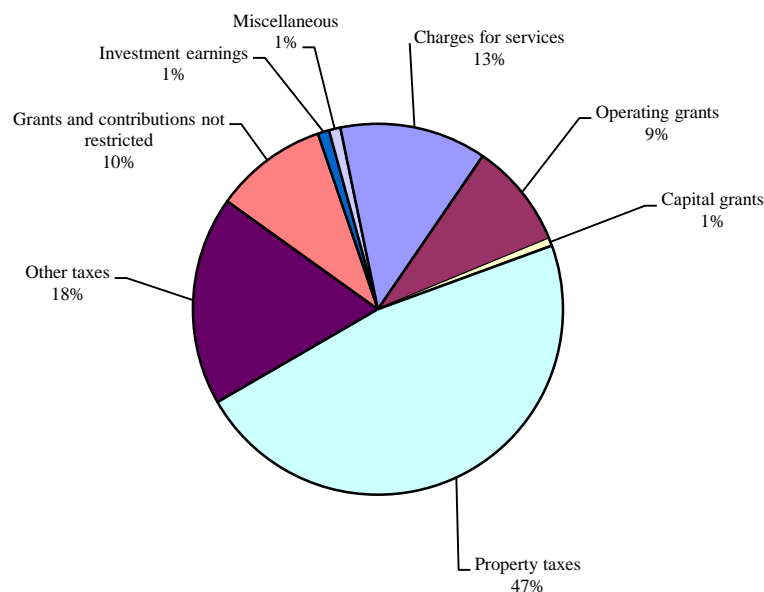
#### Governmental Activities

The City's total revenues from governmental activities were \$489.4 million for the fiscal year ended June 30, 2011. The largest source of revenue (\$231.0 million for fiscal year 2011) for the City is property taxes, composed of real estate and personal property taxes. The City's assessed real property tax base for fiscal year 2011 decreased 5%, reflecting a significant slowdown in the appreciation in the market value of real estate.

Approximately 65% of the City's revenue from governmental activities comes from some type of tax, and 13% comes from fees charged for services.

The City's expenses cover a wide range of services, with 25.7% or \$129.7 million for fiscal year 2011 related to public safety and 23.4% or \$118.4 million for fiscal year 2011 for education (payments to the Public Schools, a component unit).

#### Revenues by Source – Governmental Activities



#### Business-Type Activities

Net assets for the City's business-type activities increased by \$5.0 million. Charges for services make up 93.7% of total revenues for business-type activities.

## CITY OF NEWPORT NEWS, VIRGINIA

### Management's Discussion and Analysis

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

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

##### General Fund

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the general fund balance was \$90.4 million of which \$41.4 million represents unassigned fund balance of the General Fund. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balances represent 12% of the total fund expenditures, while total fund balance represents 25% of that same amount.

##### Debt Service Fund

The debt service fund has a fund balance of \$4.4 million. During the current fiscal year, the fund balance decrease of \$2.1 million is a net result of bonds issued and annual debt payments.

##### Bond Fund

The bond fund accounts for the proceeds of all general obligation bond issues except those of the Proprietary Funds. The bond fund accounts decreased from \$11.8 million at June 30, 2010 to \$(15.6) million at June 30, 2011, as a result of the City's net proceeds from a VRA drawdown of approximately \$3.0 and capital expenditures of \$30.4.

##### 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 is reported with government activities.

Net assets for the City's business-type activities (Public Utility) increased by \$5.0 million. Charges for services make up 93.7% of total revenues for business-type activities.

#### GENERAL FUND BUDGETARY HIGHLIGHTS

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual (Budget Basis)</b>
Revenues:			
Taxes	\$ 313,322,777	313,322,777	319,923,049
Intergovernmental	48,090,659	48,126,673	48,209,536
Other	45,017,382	45,017,382	45,773,150
Total	406,430,818	406,466,832	413,905,735
Expenditures and Transfers:			
Expenditures	364,945,130	365,631,144	359,337,146
Transfers out	41,485,688	57,385,688	65,346,016
Total	406,430,818	423,016,832	424,683,162
Change in fund balance	\$ -	(16,550,000)	(10,777,427)



## CITY OF NEWPORT NEWS, VIRGINIA

### Management's Discussion and Analysis

The difference between the original budget and the final amended budget for the City's General Fund expenditures was approximately \$16.6 million (increase in appropriations). The variance is mainly due to the following:

\$ 15.90	million	General Fund Reserve - Special Projects
0.70	million	General Fund Reserve - Self Insurance

Actual General Fund revenues and transfers from other funds were above the final budgeted revenues by \$7.4 million. Expenditures and transfers out were over budget by \$1.67 million. This negative budget variance is a result of the initial funding of the Special Projects Fund.

### 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, 2011 amounts to \$1,052.9 million (net of depreciation). This investment includes land, buildings and improvements, drainage and water/sewer systems, machinery and equipment, roads, bridges, and construction in progress.

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

- Construction in progress totaled \$37.2 million for governmental activities at the end of the fiscal year (including certain Public Schools projects under construction).
- Construction in progress totaled \$5.3 million for business-type activities at the end of the fiscal year and relates to the following projects: Walker's Dam rehabilitation \$4.2 million, Lee Hall Dam improvements \$.5 million, and tank rehabilitations \$.3 million.
- **City of Newport News' Capital Assets (net of depreciation):**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>
Land	\$ 84,730,931	82,805,449	18,022,753	17,999,219	102,753,684	100,804,668
Construction in progress	37,164,744	12,526,167	5,290,190	1,743,934	42,454,934	14,270,101
Buildings	230,881,313	237,046,040	114,037,145	117,908,360	344,918,458	354,954,400
Water systems	-	-	236,457,672	234,520,035	236,457,672	234,520,035
Improvements	84,377,304	79,445,309	13,402,267	14,374,389	97,779,571	93,819,698
Machinery and equipment	51,227,026	51,446,273	12,006,788	13,412,823	63,233,814	64,859,096
Infrastructure	165,344,399	166,515,357	-	-	165,344,399	166,515,357
	<b><u>\$ 653,725,717</u></b>	<b><u>629,784,595</u></b>	<b><u>399,216,815</u></b>	<b><u>399,958,760</u></b>	<b><u>1,052,942,532</u></b>	<b><u>1,029,743,355</u></b>

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

## CITY OF NEWPORT NEWS, VIRGINIA

### Management's Discussion and Analysis

#### Long-Term Debt

At the end of the current fiscal year, the City had total outstanding debt (including literary loans) of \$533.0 million, a decrease of 7.7% from last year, as shown in the table below. Capital leases, landfill liability, accrued vacation, net pension obligations, other post employment benefit obligations and claims payable are not included in these figures.

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

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>
General obligation bonds	\$ 353.6	383.8	134.2	147.1	487.8	530.9
Literary loans	6.7	7.2	-	-	6.7	7.2
Revenue bonds	-	-	38.5	39.2	38.5	39.2
Total	<u>\$ 360.3</u>	<u>391.0</u>	<u>172.7</u>	<u>186.3</u>	<u>533.0</u>	<u>577.3</u>

The amount of the debt outstanding related to School Board activities is \$103.0 million of the total outstanding general obligation bonds of the governmental activities.

The City issued new debt during the year totaling \$3.0 million in the form of general obligation bonds (loans from the Virginia Resources Authority (VRA)).

The City received an AA rating from Standard & Poor's Corporation in July 2011. Under Moody's Investors Service, the City received an Aa1 rating.

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

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

The unemployment rate in June 2011 for the City of Newport News was 7.6%, which is a decrease from the average for 2010 of 8.0%. The City's annual population growth rate decreased from approximately 193,172 at the end of fiscal year 2010 to 180,719 at the end of fiscal year 2011.

The FY 2012 approved budget for the General Fund is \$414.6 million, a .08% decrease over FY 2011 budget. The FY 2012 budget includes 7,437 positions, a net decrease of 63 positions. Due to the declining financial market and the uncertainty due to decreased state funding, the City required all departments to meet an expenditure reduction target for FY 2012.

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

### **Management's Discussion and Analysis**

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

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**CITY OF NEWPORT NEWS, VIRGINIA**  
Statement of Net Assets  
June 30, 2011

Assets	Primary government			Discretely presented component units	
	Governmental activities	Business-type activities	Total	Public schools	Others
Cash and cash equivalents	\$ 113,665,600	39,197,421	152,863,021	35,880,965	12,920,590
Certificates of deposit	-	-	-	-	1,513,398
Restricted cash and investments	2,560,673	42,758,626	45,319,299	-	19,207,302
Accounts receivable, net	15,444,823	14,936,189	30,381,012	453,490	5,275,973
Receivable from Industrial Development Authority	14,652,162	-	14,652,162	-	-
Receivable from primary government	-	-	-	7,646,883	-
Receivables from other governments	18,438,703	-	18,438,703	20,622,786	4,050,000
Inventory, at cost	1,618,117	3,295,162	4,913,279	962,365	102,019
Land held for lease or resale	-	-	-	-	19,733,571
Net investment in direct financing leases	-	-	-	-	4,803,930
Capital assets:					
Nondepreciable capital assets:					
Land	84,730,931	18,022,753	102,753,684	2,505,084	6,604,658
Construction in progress	37,164,744	5,290,190	42,454,934	4,709,058	9,416,127
Depreciable capital assets:					
Buildings	330,965,603	152,185,865	483,151,468	46,332,342	184,641,733
Improvements	157,701,477	-	157,701,477	42,996,178	13,961,916
Water system	-	393,304,285	393,304,285	-	-
Airport assets	-	-	-	-	138,805,359
Machinery and equipment	135,178,337	32,434,373	167,612,710	57,777,980	2,681,221
Infrastructure	468,679,881	-	468,679,881	-	2,543,500
Total capital assets	1,214,420,973	601,237,466	1,815,658,439	154,320,642	358,654,514
Less accumulated depreciation	(560,695,256)	(202,020,651)	(762,715,907)	(80,535,205)	(88,957,793)
Capital assets, net	653,725,717	399,216,815	1,052,942,532	73,785,437	269,696,721
Restricted assets:					
Permanently restricted cash	1,019,713	-	1,019,713	11,947,187	-
Other assets	1,493,164	1,872,550	3,365,714	-	1,765,807
Total assets	822,618,672	501,276,763	1,323,895,435	151,299,113	339,069,311
Deferred swap outflow	-	-	-	-	5,508,287
Total assets and deferrals	\$ 822,618,672	501,276,763	1,323,895,435	151,299,113	344,577,598
<b>Liabilities and Net Assets</b>					
Liabilities:					
Accounts payable	\$ 12,313,650	2,584,999	14,898,649	5,824,851	5,221,996
Accrued liabilities	12,157,115	4,724,997	16,882,112	25,995,811	798,476
Deposits	3,432,377	4,014,041	7,446,418	-	30,278
Unearned revenue	532,431	-	532,431	845,995	-
Deferred revenue	-	35,344,827	35,344,827	-	618,994
Payable to Newport News Public Schools	7,646,883	-	7,646,883	-	61,938
Payable to other governments	-	-	-	-	14,652,162
Long term liabilities:					
Due within one year	59,414,720	15,368,434	74,783,154	4,375,062	8,951,445
Due in more than one year	539,640,319	163,957,711	703,598,030	43,931,215	137,874,022
Total liabilities	635,137,495	225,995,009	861,132,504	80,972,934	168,209,311
Net assets:					
Invested in capital assets, net of related debt	290,455,293	251,759,910	542,215,203	61,780,411	141,909,874
Restricted for:					
Capital grants	162,471	-	162,471	-	-
Capital projects	-	-	-	-	14,376,361
Capital loans	1,019,713	-	1,019,713	-	1,393,568
Unrestricted (Deficit)	(104,156,300)	23,521,844	(80,634,456)	8,545,768	18,688,484
Total net assets	187,481,177	275,281,754	462,762,931	70,326,179	176,368,287
Total liabilities and net assets	\$ 822,618,672	501,276,763	1,323,895,435	151,299,113	344,577,598

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**

Statement of Activities  
Year ended June 30, 2011

	Expenses	Program revenues			Net (expense) revenue and changes in net assets			Public schools	Other component units
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Primary government	Total		
						Business-type activities			
Primary government:									
Governmental activities:									
General government	\$ 41,072,050	9,460,595	-	3,156,118	(28,455,337)	-	(28,455,337)		
Judicial administration	7,675,395	2,752,048	651,870	-	(4,271,477)	-	(4,271,477)		
Public safety	129,661,963	6,279,695	5,438,952	-	(117,943,316)	-	(117,943,316)		
Public works	77,288,468	36,800,694	17,350,497	-	(23,137,277)	-	(23,137,277)		
Health and welfare	54,114,507	38,400	4,664,559	-	(49,411,548)	-	(49,411,548)		
Education	118,376,318	-	14,149,573	-	(104,226,745)	-	(104,226,745)		
Parks, recreation and culture	34,385,246	6,703,850	71,342	-	(27,610,054)	-	(27,610,054)		
Community development	12,678,704	620,152	2,659,477	-	(9,399,075)	-	(9,399,075)		
Interest on long-term debt	30,258,101	-	-	-	(30,258,101)	-	(30,258,101)		
Total governmental activities	505,510,752	62,655,434	44,986,270	3,156,118	(394,712,930)	-	(394,712,930)		
Business-type activities:									
Public utility	63,397,723	74,497,015	-	4,810,036	-	15,909,328	15,909,328		
Total business-type activities	63,397,723	74,497,015	-	4,810,036	-	15,909,328	15,909,328		
Total primary government	\$ 568,908,475	137,152,449	44,986,270	7,966,154	(394,712,930)	15,909,328	(378,803,602)		
Component units:									
Public schools	\$ 318,675,759	7,263,883	68,789,246	5,687,811				(236,934,819)	-
Peninsula Airport Commission	14,714,092	9,735,233	-	7,038,062				-	2,059,203
Economic and Industrial Development Authorities	17,876,696	29,376,155	-	-				-	11,499,459
Total component units	\$ 351,266,547	46,375,271	68,789,246	12,725,873				(236,934,819)	13,558,662
General revenues:									
City Taxes:									
General property					230,980,102	-	230,980,102	-	-
E-911 service					729,711	-	729,711	-	-
Local sales and use					21,206,724	-	21,206,724	-	-
Consumers' utility					6,511,120	-	6,511,120	-	-
Consumption					674,265	-	674,265	-	-
Telecom sales and use					12,321,643	-	12,321,643	-	-
Business license					15,115,176	-	15,115,176	-	-
Rental car					1,044,775	-	1,044,775	-	-
Motor vehicle license					3,880,996	-	3,880,996	-	-
Bank stock taxes					957,902	-	957,902	-	-
Recordation and wills					1,065,889	-	1,065,889	-	-
Tobacco					4,269,564	-	4,269,564	-	-
Hotel and motel room tax					3,064,515	-	3,064,515	-	-
Restaurant food tax					17,767,348	-	17,767,348	-	-
Amusement					453,712	-	453,712	-	-
Total City Taxes					320,043,442	-	320,043,442	-	-
Grants and contributions not restricted to specific programs					48,209,536	-	48,209,536	138,222,493	-
Payment from the City					-	-	-	99,557,045	-
Investment earnings					2,395,569	235,100	2,630,669	16,099	479,731
Miscellaneous					7,834,297	(1,132,144)	6,702,153	-	374,507
Transfers					10,000,000	(10,000,000)	-	-	-
Total general revenues and transfers					388,482,844	(10,897,044)	377,585,800	237,795,637	854,238
Change in net assets					(6,230,086)	5,012,284	(1,217,802)	860,818	14,412,900
Net assets at beginning of year					193,711,263	270,269,470	463,980,733	69,465,361	161,955,387
Net assets at end of year	\$				187,481,177	275,281,754	462,762,931	70,326,179	176,368,287

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**

Balance Sheet  
Governmental Funds  
June 30, 2011

<b>Assets</b>	<b>General fund</b>	<b>Debt service fund</b>	<b>Bond fund</b>	<b>Nonmajor governmental funds</b>	<b>Total governmental funds</b>
Cash and cash equivalents	\$ 69,891,703	2,118,836	-	39,955,975	111,966,514
Restricted cash	-	1,351,184	1,209,489	-	2,560,673
Accounts receivable, net	14,233,632	-	-	1,210,703	15,444,335
Advances to other funds	802,546	-	-	6,448,431	7,250,977
Receivable from component unit	14,652,162	-	-	-	14,652,162
Receivables from other governments	13,776,087	-	-	4,662,616	18,438,703
Inventory, at cost	1,059,755	-	-	-	1,059,755
Restricted assets:					
Permanently restricted cash	-	1,019,713	-	-	1,019,713
Total assets	<u>\$ 114,415,885</u>	<u>4,489,733</u>	<u>1,209,489</u>	<u>52,277,725</u>	<u>172,392,832</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 7,088,909	48,336	2,174,853	2,745,369	12,057,467
Accrued liabilities	5,863,443	70,500	501,345	300,360	6,735,648
Deposits	3,432,377	-	-	-	3,432,377
Deferred revenue	7,093,863	-	-	312,722	7,406,585
Unearned revenue	532,431	-	-	-	532,431
Payable to Newport News Public Schools	-	-	7,646,883	-	7,646,883
Advances from other funds	-	-	6,448,431	-	6,448,431
Advances from major governmental fund	-	-	-	802,546	802,546
Total liabilities	<u>24,011,023</u>	<u>118,836</u>	<u>16,771,512</u>	<u>4,160,997</u>	<u>45,062,368</u>
Fund balances:					
Nonspendable	15,711,917	-	-	-	15,711,917
Restricted	2,011,665	1,019,713	16,524,814	10,665,802	30,221,994
Committed	-	3,321,184	-	37,450,926	40,772,110
Assigned	31,290,680	30,000	-	-	31,320,680
Unassigned	41,390,600	-	(32,086,837)	-	9,303,763
Total fund balances	<u>90,404,862</u>	<u>4,370,897</u>	<u>(15,562,023)</u>	<u>48,116,728</u>	<u>127,330,464</u>
Total liabilities and fund balances	<u>\$ 114,415,885</u>	<u>4,489,733</u>	<u>1,209,489</u>	<u>52,277,725</u>	<u>172,392,832</u>

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**  
Reconciliation of the Balance Sheet of Governmental Funds to the  
Statement of Net Assets  
June 30, 2011

Fund balances – total governmental funds		\$ 127,330,464
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Governmental capital assets	\$ 1,163,068,978	
Less accumulated depreciation	<u>(530,304,113)</u>	
		632,764,865
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		7,406,585
Internal service funds are used by management to charge the costs of certain activities to individual funds.	22,676,681	
Adjustment to add back accrued vacation included below	<u>248,354</u>	
		22,925,035
Governmental funds report the effect of issuance costs when the debt is issued. These costs, less accumulated amortization, are deferred in the statement of net assets.		1,493,164
Unmatured interest payable reported in governmental activities will not be paid with current financial resources and therefore, are not reported in the funds.		(5,383,897)
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	(357,568,853)	
Literary fund bonds	(6,717,425)	
Land lease payable	(1,544,819)	
Landfill liability	(5,353,000)	
Accrued vacation	(18,436,752)	
Workers' compensation and other claims	(15,942,443)	
Net pension obligations	(174,750,000)	
Net OPEB Obligations	(15,694,938)	
Incurred but not reported claims	<u>(3,046,809)</u>	
		<u>(599,055,039)</u>
Net assets of governmental activities		<u>\$ 187,481,177</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, 2011

	<b>General fund</b>	<b>Debt service fund</b>	<b>Bond fund</b>	<b>Nonmajor governmental funds</b>	<b>Total governmental funds</b>
Revenues:					
General property taxes	\$ 230,859,709	-	-	-	230,859,709
Other local taxes	89,063,340	-	-	-	89,063,340
Licenses and permits	3,372,142	-	-	-	3,372,142
Fines and forfeitures	2,331,671	-	-	-	2,331,671
Intergovernmental	48,209,536	14,149,573	-	32,620,658	94,979,767
Charges for services	17,651,291	-	-	36,405,521	54,056,812
Interest and rent	2,259,869	-	-	131,773	2,391,642
Recovered costs	6,210,451	-	-	56,500	6,266,951
Miscellaneous	3,447,726	28,164	-	-	3,475,890
Total revenues	403,405,735	14,177,737	-	69,214,452	486,797,924
Expenditures:					
Current operating:					
General government	49,204,614	-	-	126,059	49,330,673
Judicial administration	6,592,179	-	-	-	6,592,179
Public safety	108,233,115	-	-	5,842,151	114,075,266
Public works	14,229,278	-	-	47,923,192	62,152,470
Health and welfare	41,538,497	-	-	7,379,174	48,917,671
Education	109,200,000	-	8,061,884	1,000,000	118,261,884
Parks, recreation and culture	26,813,120	-	-	109,327	26,922,447
Community development	5,062,683	-	-	5,789,330	10,852,013
Debt service:					
Principal	-	33,674,657	-	-	33,674,657
Interest and other charges	-	28,100,086	-	-	28,100,086
Capital outlay	-	-	22,301,908	5,489,300	27,791,208
Total expenditures	360,873,486	61,774,743	30,363,792	73,658,533	526,670,554
Excess (deficiency) of revenues over (under) expenditures	42,532,249	(47,597,006)	(30,363,792)	(4,444,081)	(39,872,630)
Other financing sources (uses):					
Transfers in	10,500,000	45,456,557	-	31,231,995	87,188,552
Transfers out	(66,300,021)	-	-	(10,888,531)	(77,188,552)
Bond and note issuance of debt	-	-	3,040,835	-	3,040,835
Total other financing sources (uses)	(55,800,021)	45,456,557	3,040,835	20,343,464	13,040,835
Net changes in fund balances	(13,267,772)	(2,140,449)	(27,322,957)	15,899,383	(26,831,795)
Fund balances (deficit) at June 30, 2010	103,672,634	6,511,346	11,760,934	32,217,345	154,162,259
Fund balances (deficit) at June 30, 2011	\$ 90,404,862	4,370,897	(15,562,023)	48,116,728	127,330,464

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, 2011

Net change in fund balances – total governmental funds \$ (26,831,795)

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	\$ 27,791,208	
Plus: Capital expenditures not included in general fund capital outlays	23,489,464	
Less: Non-capitalized asset	(6,553,676)	
Depreciation expense	<u>(26,561,838)</u>	
		18,165,158

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.

4,555,266

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Deferred revenue decreased by this amount in the current year.

120,393

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

Principal repayments	33,674,657	
Debt issued (and related costs)	(3,040,835)	
Premium on issuance of long-term debt	2,105,022	
Current year gain on refunding, net of amortization	53,719	
Current year loss on refunding, net of amortization	(1,117,957)	
Debt issuance costs, net of amortization	<u>(288,299)</u>	
		31,386,307

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	(2,158,015)	
Landfill liability	215,000	
Accrued vacation	(565,834)	
Net pension obligation	(28,261,000)	
Net OPEB obligation	(6,292,023)	
Workers' compensation and other claims	1,965,004	
Incurred but not reported liabilities	<u>(124,697)</u>	
		(35,221,565)

Internal service funds are used by management to charge the costs of certain services to individual funds. The net income of the internal service fund is reported with governmental activities (excludes change in compensated absences).

1,596,150

Change in net assets of governmental activities	<u>\$ (6,230,086)</u>	
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See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**

Statement of Net Assets

Proprietary Funds

June 30, 2011

<b>Assets</b>	<b>Major Fund - Public Utility</b>	<b>Internal Service Fund</b>
Current assets:		
Cash and cash equivalents	\$ 39,197,421	1,699,086
Restricted cash	42,758,626	—
Accounts receivable, net	14,936,189	488
Inventory	3,295,162	558,362
Total current assets	<u>100,187,398</u>	<u>2,257,936</u>
Noncurrent assets:		
Capital assets:		
Nondepreciable capital assets:		
Land	18,022,753	20,257
Construction in progress	5,290,190	—
Depreciable capital assets:		
Buildings	152,185,865	3,469,775
Improvements	—	200,961
Water system	393,304,285	—
Machinery and equipment	32,434,373	47,661,002
Total capital assets	<u>601,237,466</u>	<u>51,351,995</u>
Less accumulated depreciation	<u>(202,020,651)</u>	<u>(30,391,143)</u>
Capital assets, net	399,216,815	20,960,852
Other assets	1,872,550	—
Total noncurrent assets	<u>401,089,365</u>	<u>20,960,852</u>
Total assets	<u>\$ 501,276,763</u>	<u>23,218,788</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 2,584,999	256,183
Accrued liabilities	4,724,997	285,924
Deferred revenue	35,344,827	—
General obligation bonds payable, net	14,528,649	—
Revenue bonds payable, net	839,785	—
Total current liabilities	<u>58,023,257</u>	<u>542,107</u>
Noncurrent liabilities:		
Deposits	4,014,041	—
General obligation bonds payable, net	125,845,397	—
Revenue bonds payable, net	38,112,314	—
Total noncurrent liabilities	<u>167,971,752</u>	<u>—</u>
Total liabilities	<u>225,995,009</u>	<u>542,107</u>
Net assets:		
Invested in capital assets, net of related debt	251,759,910	20,960,852
Unrestricted	23,521,844	1,715,829
Total net assets	<u>275,281,754</u>	<u>22,676,681</u>
Total liabilities and net assets	<u>\$ 501,276,763</u>	<u>23,218,788</u>

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**  
Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Funds  
Year ended June 30, 2011

	<u><b>Major Fund - Public Utility</b></u>	<u><b>Internal Service Fund</b></u>
Operating revenues:		
Water sales	\$ 60,703,820	-
Charges for services	11,137,674	10,003,950
Miscellaneous	2,655,521	20,561
Total operating revenues	<u>74,497,015</u>	<u>10,024,511</u>
Operating expenses:		
Personal services	21,724,308	2,676,033
Contractual services	10,759,430	104,208
Internal services	1,370,511	69,936
Materials and supplies	4,971,858	3,056,549
Depreciation	14,074,366	3,880,633
Other	3,540,119	-
Total operating expenses	<u>56,440,592</u>	<u>9,787,359</u>
Operating income (loss)	<u>18,056,423</u>	<u>237,152</u>
Nonoperating revenues (expenses):		
Interest revenue	235,100	3,927
Loss on disposal of capital assets	(249,458)	(54,519)
Amortization, cost of issuing bonds	(154,210)	-
Loss on long-term debt	(728,476)	-
Interest expense	(6,957,131)	-
Total nonoperating revenues (expenses)	<u>(7,854,175)</u>	<u>(50,592)</u>
Income (loss) before capital contributions and transfers out	<u>10,202,248</u>	<u>186,560</u>
Capital contributions for capital assets	4,810,036	1,372,157
Transfers out	(10,000,000)	-
Change in net assets	5,012,284	1,558,717
Net assets at June 30, 2010	<u>270,269,470</u>	<u>21,117,964</u>
Net assets at June 30, 2011	<u>\$ 275,281,754</u>	<u>22,676,681</u>

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**

Statement of Cash Flows

Proprietary Funds

Year ended June 30, 2011

	<b><u>Major Fund - Public Utility</u></b>	<b><u>Internal Service Fund</u></b>
Cash flows from operating activities:		
Receipts from customers	\$ 73,799,024	10,024,511
Payments to suppliers	(16,676,380)	(3,200,009)
Payments to employees	(21,306,208)	(2,676,033)
Other payments	(3,540,119)	—
Net cash provided by operating activities	<u>32,276,317</u>	<u>4,148,469</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(13,571,586)	(5,366,883)
Capital asset contributions	4,810,036	1,372,157
Proceeds from sale of capital assets	46,893	211,033
Repayment and retirement of long-term debt	(13,635,000)	—
Interest paid	(8,546,234)	—
Net cash provided by (used in) capital and related financing activities	<u>(30,895,891)</u>	<u>(3,783,693)</u>
Cash flows used in noncapital financing activities -		
Transfer to other funds	<u>(10,000,000)</u>	<u>—</u>
Cash flows provided by investing activities -		
Interest received	<u>235,100</u>	<u>3,927</u>
Increase (decrease) in cash and restricted cash	(8,384,474)	368,703
Cash and restricted cash at beginning of year	<u>90,340,521</u>	<u>1,330,383</u>
Cash and restricted cash at end of year	\$ <u><u>81,956,047</u></u>	\$ <u><u>1,699,086</u></u>
Reported as:		
Cash and cash equivalents	\$ 39,197,421	1,699,086
Restricted cash	<u>42,758,626</u>	<u>—</u>
Total cash & cash equivalents	\$ <u><u>81,956,047</u></u>	\$ <u><u>1,699,086</u></u>
Cash flows from operating activities:		
Operating income (loss)	\$ 18,056,423	237,152
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation	14,074,366	3,880,633
Changes in assets and liabilities:		
Accounts receivable	216,644	(488)
Inventories	120,584	(39,222)
Accounts payable	539,716	70,394
Deferred revenue	(914,634)	—
Accrued liabilities	418,100	—
Deposits	(234,882)	—
Total adjustments	<u>14,219,894</u>	<u>3,911,317</u>
Net cash provided by operating activities	\$ <u><u>32,276,317</u></u>	\$ <u><u>4,148,469</u></u>

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2011

<b>Assets</b>	<b>Pension &amp; Other Post Employment Benefits</b>	<b>Agency Funds</b>
Cash and cash equivalents	\$ 5,930,702	4,177,866
Cash and cash equivalents with trustee	33,047,448	—
Investments		
Corporate and government bonds	159,197,131	—
Common stock	338,317,263	—
International stock	92,228,350	—
International emerging markets	44,653,603	—
Real estate	69,901,324	—
Accounts receivable	6,357,068	3,727,072
Interest receivable	959,009	—
Dividend receivable	60,629	—
Sales receivable	2,492,438	—
Inventory	—	1,529
Total assets	<u>\$ 753,144,965</u>	<u>7,906,467</u>
<b>Liabilities</b>		
Accounts payable	\$ 2,188,682	120,889
Accrued vacation	28,976	—
Due to other governments	—	5,218,336
Due to other agencies	—	2,567,242
Purchases payable	3,989,529	—
Total liabilities	<u>6,207,187</u>	<u>7,906,467</u>
<b>Net Assets</b>		
Assets held in trust:		
Postemployment healthcare benefits	14,135,113	—
Employees' retirement	732,802,665	—
Total net assets	<u>746,937,778</u>	<u>—</u>
Total liabilities and net assets	<u>\$ 753,144,965</u>	<u>7,906,467</u>

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds - Employees' Retirement Trusts for Pension & Other Post Employment Benefits  
Year ended June 30, 2011

	<b>Pension &amp; Other Post Employment Benefits</b>
Additions (decreases):	
Employer Contributions:	
City General Fund	\$ 32,060,209
Waterworks Fund	3,172,066
School Operating Fund	3,996,867
Other Contributions:	
Income from Leave Exchange	171,916
Employee Buy-back	369,963
Total contributions	<u>39,771,021</u>
Investment income:	
Net appreciation - bonds	5,591,865
Net appreciation - stocks	103,278,583
Interest	6,715,415
Dividends	14,671,553
Real estate operating loss, net	7,058,110
Commission recapture	69,843
Other investment income	2,300
Total investment gain	<u>137,387,669</u>
Less investment expenses:	
Other investment expenses	<u>(4,115,182)</u>
Net investment gain	<u>133,272,487</u>
Total increase	<u>173,043,508</u>
Deductions:	
Benefits:	
Service	53,286,360
Occupational death	68,882
Nonoccupational death	22,000
Occupational disability	251,543
Nonoccupational disability	682,192
Reversionary annuity	2,963,764
Portability transfer	211,659
Insurance benefits	9,635,343
Total benefits	<u>67,121,743</u>
Administrative expenses:	
Personal services	499,513
Board fees	11,140
Consultant fees	165,000
Actuary fees	49,090
Audit fees	18,630
Medical disability exam fees	3,225
Total administrative expenses	<u>746,598</u>
Total deductions	<u>67,868,341</u>
Net increase	<u>105,175,167</u>
Net assets held in trust for pension benefits at June 30, 2010	<u>641,762,611</u>
Net assets held in trust for pension benefits at June 30, 2011	<u><u>\$ 746,937,778</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, 2011

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

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

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

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

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

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

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

- The Newport News Public Schools (Public Schools or School Board) are responsible for elementary and secondary education within the City. The School Board is elected by the voters of Newport News and operates the four early childhood centers, 25 elementary, seven middle, and five high schools and one middle-high school combination in the City. The School Board may not issue debt. City Council makes an annual appropriation to the School Board, but is prohibited from exercising any control over specific expenditures of School Board operating funds. Transfers within the School Operating Fund are under the control of the School Board at the categorical level. Expenditures are controlled in the School Cafeteria and School Grants Funds through use of budgets approved by the School Board. Separate audited financial statements are available from the Newport News Public Schools at 12465 Warwick Boulevard, Newport News, Virginia 23606.

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

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

**June 30, 2011**

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

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

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

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

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

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

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

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2011

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are susceptible to accrual (i.e., both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period, usually within 30-45 days after year-end. Expenditures, other than interest on long-term debt which is recorded when due, are recorded when the related fund liability is incurred.

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

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

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

The City reports the following major governmental funds:

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

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

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

The City reports the following major proprietary fund:

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

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2011

Additionally, the City reports the following fund types:

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

*Pension Trust Employees' Retirement Fund* accounts for all contributions and investments accumulated for employees' retirement. Also, the fund pays for all related expenses incurred as well as retiree benefits. The City's pension plan covers all full-time City and School employees who are not covered under the Virginia Retirement System (VRS). A supplement plan is provided for School employees covered under VRS. All City employees hired on and after March 1, 2010 are covered under VRS and excluded from the City's pension fund. All School employees hired or rehired on or after July 1, 2009 are excluded from the City's pension fund. The City's Pension Fund is accounted for in essentially the same manner as proprietary funds.

*Other Post Employment Benefits' (OPEB) Fund* accounts for all contributions and investments accumulated for employees' medical benefits and life insurance coverage at retirement. The fund pays for all related expenses incurred as well as health, dental and life insurance benefits. The City's OPEB Fund covers all full-time City employees. Effective July 1, 2009, Newport News School System separated from the City's OPEB Fund and established a separate Trust. The City's OPEB Fund is accounted for in essentially the same manner as proprietary funds.

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

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

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

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the government-wide financial statements and the fund financial statements of the enterprise fund type follow all applicable GASB pronouncements and all Financial Accounting Standards Board (FASB) pronouncements and predecessor APB Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not contradict or conflict with GASB pronouncements. Under paragraph 7 of Statement No. 20, the City has elected not to apply FASB pronouncements issued after November 30, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide

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

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

**June 30, 2011**

financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's public utility function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

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

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

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

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

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

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

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2011

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 2011 was \$1.10 per \$100 of assessed value.

*Personal Property* – The City levies personal property taxes on motor vehicles and tangible personal business property. These levies are made each year as of January 1 with payment due the following June 5 and December 5. The current year personal property taxes reported as revenue are the levies on assessed valuation at January 1, less an allowance for uncollectible amounts and taxes not collected within 45 days after year-end. The 2011 tax rates per \$100 of assessed value were:

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

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

The City calculates allowances for uncollectibles using historical collection data, specific account analysis and management's judgment. The allowance at June 30, 2011 is composed of the following:

##### General Fund –

##### Taxes receivable:

Real Estate	\$	1,001,256
Personal Property		<u>3,100,456</u>
Total Taxes	\$	<u>4,101,802</u>

Special Revenue Funds – Accounts receivable	\$	846,531
Public Utility Fund - Accounts receivable	\$	326,652

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

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

**June 30, 2011**

**(g) *Inventories***

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

**(h) *Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Beginning in FY 2009, capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. At the end of June 30, 2008, the capitalization threshold was \$2,000. The government applied the \$5,000 threshold prospectively. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Interest of \$57,186 was capitalized during fiscal year 2011.

Under Virginia law, certain property maintained by the School Board is subject to tenancy-in-common with the City if the City incurred a financial obligation for the property payable over more than one fiscal year. The School Board and the City have agreed that such property will be carried on the City's financial statements until the outstanding debt is repaid. At June 30, 2011, the City holds capital assets related to school property with a net book value of \$141,419,614.

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

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

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

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

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

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

**June 30, 2011**

**(j) *Compensated Absences***

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

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

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

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

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

**(l) *Fund Equity/Net Assets***

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted, and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through State statute. In the



## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2011

fiduciary fund financial statements, net assets of the Pension & Other Post Employment Benefits Trust Funds are held in trust for the payment of retiree pension, health and life insurance benefits.

Effective in fiscal year 2011, the Governmental Accounting Standards Board issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). Under GASB 54, fund balances are required to be reported according to the following classifications:

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

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

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

*Assigned fund balance* – Consists of amounts which the City intends to use for specific purposes, but which are neither restricted nor committed as previously defined. Intent can be stipulated by the governing body, another body or by an official to who that authority has been given. With the exception of the General Fund, this is the residual fund balance of the classification for all governmental funds with positive balances.

*Unassigned fund balance* – This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General fund. Under GASB 54, positive unassigned fund balances are only reported in the General Fund. However, in governmental funds other than the General Fund, expenditures incurred for a specific purpose might exceed the amount restricted, committed or assigned to that purpose, and a negative residual amount for that purpose may result. If that occurs, any negative residual is offset to the extent of any other assigned amounts in that fund, and any remaining negative residual amount is classified as a negative unassigned fund balance in the applicable governmental fund. For FY 2011, the bond fund had a negative residual amount of \$32.1 million due to expenditures made prior to receipt of bond proceeds.

City Council has adopted a minimum fund balance policy which states that the General fund's unassigned fund balance shall not be less than 7.5% of the actual General fund revenues. For FY 2011, the General fund's unassigned fund balance is 10% of the General fund's revenues, exceeding the policy threshold of 7.5%.

Details of the Fund balance classifications of the Governmental funds at June 30, 2011 are as follows:

**CITY OF NEWPORT NEWS, VIRGINIA**  
Notes to Basic Financial Statements  
June 30, 2011

<b>Function/Purpose</b>	<b>Nonspendable</b>	<b>Restricted</b>	<b>Committed</b>	<b>Assigned</b>
General fund				
Inventories	\$ 1,059,755	\$ -	\$ -	\$ -
Long-term note receivable	14,652,162	-	-	-
Public works- Sanitary Sewer	-	1,797,870	-	-
Park, recreation, and cultural	-	213,795	-	1,426,399
General government administration:				
Self insured activities				16,000,000
Projects	-	-	-	10,823,413
Public safety	-	-	-	95,116
Reserve for encumbrances	-	-	-	2,923,582
Imprest Funds	-	-	-	22,170
Total General Fund	\$ 15,711,917	\$ 2,011,665	\$ -	\$ 31,290,680
Other Funds				
Debt Service	\$ -	\$ 1,019,713	\$ 3,321,184	\$ 30,000
Bond Fund Projects	-	16,524,814		
Special Revenue	-	10,209,318	32,968,894	
Capital Projects	-	456,484	4,482,032	
Total Other Funds	-	28,210,329	40,772,110	30,000
	\$ 15,711,917	\$ 30,221,994	\$ 40,772,110	\$ 31,320,680

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

**(m) Encumbrances**

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

**(2) Deposits and Investments**

**Deposits**

All cash of the City is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act (the Act), Section 2.2-4400 et. Seq. of the code of Virginia or covered by

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2011

federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by the FDIC must pledge collateral of 50% of the excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of the FDIC limits and are considered insured. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

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

	<b><u>Carrying amount</u></b>
Cash and deposits:	
Cash on hand	\$ 112,544
Deposits with banks	<u>21,394,777</u>
Total cash and deposits	21,507,321
Investments:	
Local Government Investment Pool (LGIP)	190,719,733
Deposits with banks – Money market accounts	8,558,884
Deposits with banks – Repurchase agreements	4,546,765
Peninsula Airport Commission – Time Deposits	1,513,398
Commonwealth cash reserve	3,759,151
VA SNAP	37,707,564
Common Stock – IDA	1,169
Debt Service – QZAB Sinking Fund	1,019,713
IDA escrow funds	<u>3,568,456</u>
Total deposits and investments	<u>\$ 272,902,154</u>

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

	<b><u>June 30, 2011</u></b>
Statements of net assets:	
Primary Government:	
Cash and cash equivalents	\$ 152,863,021
Restricted cash	46,339,012
Component Units:	
Cash and cash equivalents	50,314,953
Restricted cash	19,207,302
Fiduciary Funds (page 23):	
Cash and cash equivalents – Agency Funds	<u>4,177,866</u>
Total cash and investments	<u>\$ 272,902,154</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

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2011

International Bank for Reconstructions and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, banker’s acceptances, repurchase agreements, the State Treasurer’s Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool), the State Non-Arbitrage Pool (“SNAP”) or similar fund, Open-end mutual funds (provided the funds are registered under the Security Act of Virginia or the Federal Investment Act of 1940), and negotiable certifications of deposits and negotiable bank deposit notes of domestic banks and domestic offices of foreign banks with a rating of at least A-1/P-1.

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

**Interest Rate Risk:** As a means of limiting exposure to fair value losses arising from rising interest rates, investment maturity is managed to proceed or coincide with expectance need of funds. The City’s Policy limits the investment of operating funds to investments with a stated maturity of no more than thirty-six (36) months from the date of purchase. Purchases of securities are laddered with staggered maturity dates. Proceeds from the sale of bonds must be invested in compliance with the specific requirements of the bond covenants and may be invested in securities with longer maturities. As of June 30, 2011, 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, 2011, were fully insured or collateralized by securities held in the name of the City of Newport News by the City’s custodial banks.

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

**Credit Risk of Debt Securities of Primary Government:** The City’s rated debt investments as of June 30, 2011, were rated by Standard & Poor and Moody. The ratings are presented below using the Standard & Poor rating scale. The component units, School Boards and IDA, are pooled with the city and not separately identified.

**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2011

<b><u>Assets held by the Treasurer</u></b>	<b><u>Fair Value</u></b>	<b><u>Credit Rating</u></b>	<b><u>Weighted Average Maturity (Years)</u></b>
Local Government Investment Pool (LGIP)	\$ 190,719,733	AAAm	N/A
Money Market Mutual Funds – Underlying:			
U.S. Agencies	1,899,646	AAA	0.25
U.S. Gov. Bonds	905,103	AAAm	0.25
Commonwealth Cash Reserve (AIM) – Underlying:			
U.S. Agencies	3,759,152	AAAm	0.00
VA SNAP	<u>37,707,564</u>	AAAm	0.00
Total Deposits and Investments	<u>\$ 234,991,198</u>		

N/A – Not applicable

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

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

	<b><u>Carrying amount</u></b>
Cash and deposits:	
Deposits with banks	\$ 826,418
Deposits with banks – Repurchase agreements	5,104,284
Pension trust fund money markets	<u>33,047,448</u>
Total cash and deposits	\$ 38,978,150
Investments:	
Common & international stocks	\$475,199,216
Corporate and government bonds	159,197,131
Pension fund real estate funds	<u>69,901,324</u>
Total deposits and investments	<u>\$743,275,821</u>

The Pension and OPEB funds' cash and investment as of June 30, 2011 are classified in the accompanying financial statements as follows:

	<b><u>June 30, 2011</u></b>
Cash and cash equivalents	\$ 5,930,702
Cash and cash equivalents with trustee	33,047,448
Investments	
Corporate and government bonds	159,197,131
Common stock	338,317,263
International stock	92,228,350
International emerging markets	44,653,603
Real estate	<u>69,901,324</u>
Total deposits and investments	<u>\$ 743,275,821</u>

**CITY OF NEWPORT NEWS, VIRGINIA**

## Notes to Basic Financial Statements

June 30, 2011

***Investment Policy of the Pension and OPEB Funds***

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

**Credit Risk of the Pension and OPEB Funds**

The credit risk profile for the Pension and OPEB Funds' securities by investment type as of June 30, 2011 is as follows:

	S & P's Ratings as of June 30, 2011					
	TOTAL	AAA	AA	A	BBB	Not Rated
<b>Investment Types</b>						
Asset-backed	\$ 17,708,414	14,523,347	-	-	-	3,185,067
Corporate Bonds	44,309,913	395,045	8,411,566	34,850,487	652,815	-
Foreign Currency	7,585,873	-	-	-	-	7,585,873
Mortgage-backed	53,276,650	52,567,641	102,075	-	-	606,933
Municipals	313,533	-	313,533	-	-	-
Mutual Funds	90,831,423	-	-	-	-	90,831,423
Real Estate Inv.	388,874	-	-	-	-	388,874
Short-Term	24,317,997	-	-	-	-	24,317,997
U.S. Agencies	26,178,611	23,222,159	282,194	-	-	2,674,258
U.S. Treasury	18,558,011	296,302	-	-	-	18,261,708
Warrants	33	-	-	-	-	33
Non-fixed Assets	445,778,609	-	-	-	-	445,778,609
Total	<u>\$ 729,247,941</u>	<u>91,004,494</u>	<u>9,109,368</u>	<u>34,850,487</u>	<u>652,815</u>	<u>593,630,775</u>

***Concentration of Credit Risk – Pension and OPEB Funds***

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

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

The Funds' Custodian (State Street Bank) holds investment securities in the Funds' name. Accordingly, the Funds are not exposed to custodial credit risk.

***Foreign Currency Risk – Pension and OPEB Funds***

The Funds do not have a formal policy to limit foreign currency risk. Risk of loss arises from changes in currency exchange rates. The Funds exposure to foreign currency risk is as follows:

**CITY OF NEWPORT NEWS, VIRGINIA**  
Notes to Basic Financial Statements  
June 30, 2011

**2011 Foreign Currency Risk**

<b>Investment</b>	<b>Currency</b>	<b>Fair Value</b>
Common stock	Brazilian real	\$ 70,598
Common stock	Euro currency	8,409,233
Preferred stock	Euro currency	31,155
Cash equivalent	Euro currency	758,091
Common stock	Japanese yen	6,737,267
Cash equivalent	Japanese yen	96,353
Common stock	New Zealand dollar	147,491
Common stock	Pound sterling	4,064,214
Common stock	Swiss krona	443,885
Common stock	Swiss franc	1,017,039
Total		<u>\$ 21,775,326</u>

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**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2011

**(3) Accounts Receivable**

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

	<u>Governmental activities</u>	<u>Business-type activities</u>
Taxes receivable:		
Real Estate	\$ 6,131,470	-
Personal Property	3,034,231	-
Total taxes receivable, net	9,165,701	-
Accounts receivable	6,279,122	14,936,189
Total receivables, net	\$ 15,444,823	14,936,189

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

	<u>General</u>	<u>Public Utility</u>	<u>Fiduciary Funds</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:					
Taxes	\$ 13,267,503	-	-	-	13,267,503
Accounts	5,067,931	15,262,841	10,084,140	2,057,234	32,472,146
Intergovernmental:					
Federal	930,015	-	-	3,741,992	4,672,007
State	12,846,072	-	-	920,624	13,766,696
Gross receivables	32,111,521	15,262,841	10,084,140	6,719,850	64,178,352
Less allowance for doubtful accounts	(4,101,802)	(326,652)	-	(846,531)	(5,274,985)
Net total receivables	\$ 28,009,719	14,936,189	10,084,140	5,873,319	58,903,367

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, deferred revenue of \$0.3 million was reported in the governmental nonmajor funds. The general fund deferred revenue of \$7.1 million includes approximately \$7.0 million in property tax deferrals.



**CITY OF NEWPORT NEWS, VIRGINIA**  
Notes to Basic Financial Statements  
June 30, 2011

**(4) Capital Assets, Net**

Capital asset activity for the year ended June 30, 2011 was as follows:

**Primary Government**

	<u>Balance</u> <u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 82,805,449	1,925,482	-	84,730,931
Construction in progress	12,526,167	34,676,568	10,037,991	37,164,744
Total capital assets, not being depreciated	<u>95,331,616</u>	<u>36,602,050</u>	<u>10,037,991</u>	<u>121,895,675</u>
Capital assets, being depreciated:				
Buildings	330,965,603	-	-	330,965,603
Improvements	146,887,151	10,814,326	-	157,701,477
Machinery and equipment	126,289,514	10,935,295	2,046,472	135,178,337
Infrastructure	462,334,235	6,345,646	-	468,679,881
Total capital assets being depreciated	<u>1,066,476,503</u>	<u>28,095,267</u>	<u>2,046,472</u>	<u>1,092,525,298</u>
Less accumulated depreciation for:				
Buildings	93,919,563	6,164,727	-	100,084,290
Improvements	67,441,842	5,882,331	-	73,324,173
Machinery and equipment	74,843,241	10,843,191	1,735,121	83,951,311
Infrastructure	295,818,878	7,516,604	-	303,335,482
Total accumulated depreciation	<u>532,023,524</u>	<u>30,406,853</u>	<u>1,735,121</u>	<u>560,695,256</u>
Total capital assets being depreciated, net	<u>534,452,979</u>	<u>(2,311,586)</u>	<u>311,351</u>	<u>531,830,042</u>
Capital assets, net	\$ <u>629,784,595</u>	<u>34,290,464</u>	<u>10,349,342</u>	<u>653,725,717</u>

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

General Government	\$ 3,312,128
Judicial Administration	404,519
Public Safety	3,842,098
Public Works	8,737,101
Health and Welfare	160,525
Education	4,669,700
Parks, Recreation and Culture	4,691,003
Community Development	709,424
Non-departmental	35,340
Internal Service Fund	3,845,015
	<u>\$ 30,406,853</u>

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2011

Construction in progress for the City at June 30, 2011 is composed of the following project authorizations (in millions):

	<b>Project Authorization</b>	<b>Expended as of June 30, 2011</b>	<b>Balance of Authorization</b>	<b>Future Funding Requirements</b>
General Government	\$ 36.1	2.7	33.4	18.7
Judicial	-	5.3	(5.3)	-
Health & Welfare	-	0.2	(0.2)	-
Public Safety	101.0	4.3	96.7	-
Public Works	123.4	17.6	105.8	18.8
Parks and Recreation	46.9	3.0	43.9	0.5
Economic Development				3.5
and Urban Renewal	53.9	-	53.9	-
Public Schools	8.7	4.1	4.6	10.4
Totals	<u>\$ 370.1</u>	<u>37.2</u>	<u>332.8</u>	<u>51.8</u>

In addition, the City had commitments of approximately \$123.1 million relating to infrastructure at June 30, 2011.

### Business-type Activities:

	<b>Balance July 1, 2010</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2011</b>
<b>Public Utility:</b>				
Capital assets, not being depreciated:				
Land	\$ 17,999,219	25,000	1,466	18,022,753
Construction in progress	1,743,934	5,127,331	1,581,075	5,290,190
Total capital assets, not being depreciated	19,743,153	5,152,331	1,582,541	23,312,943
Capital assets, being depreciated:				
Buildings	152,185,865	-	-	152,185,865
Improvements	385,256,227	8,586,680	538,622	393,304,285
Machinery and equipment	31,530,537	1,285,730	381,894	32,434,373
Total capital assets being depreciated	568,972,629	9,872,410	920,516	577,924,523
Less accumulated depreciation for:				
Buildings	34,277,505	3,871,215	-	38,148,720
Improvements	136,361,803	7,515,954	433,411	143,444,346
Machinery and equipment	18,117,714	2,687,196	377,325	20,427,585
Total accumulated depreciation	188,757,022	14,074,365	810,736	202,020,651
Total capital assets being depreciated, net	380,215,607	(4,201,955)	109,780	375,903,872
Capital assets, net	<u>\$ 399,958,760</u>	<u>950,376</u>	<u>1,692,321</u>	<u>399,216,815</u>

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

Public Utility	\$14,074,365
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**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2011

Land held for resale in the amount of \$10,889,386 consists of land purchased by the Department of Public Utilities specifically for a raw water supply project that was discontinued and are assets not needed or used for water system operations.

**Discretely Presented Component Units**

	<u>Balance</u> <u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</u>
<b>Public Schools:</b>				
Capital assets, not being depreciated:				
Land	\$ 2,505,084	-	-	2,505,084
Construction in progress	-	4,709,058	-	4,709,058
Total capital assets, not being depreciated	<u>2,505,084</u>	<u>4,709,058</u>	<u>-</u>	<u>7,214,142</u>
Capital assets, being depreciated:				
Buildings	46,094,798	237,544	-	46,332,342
Improvements	42,469,253	526,925	-	42,996,178
Machinery and equipment	<u>58,098,041</u>	<u>3,247,282</u>	<u>3,567,343</u>	<u>57,777,980</u>
Total capital assets being depreciated	<u>146,662,092</u>	<u>4,011,751</u>	<u>3,567,343</u>	<u>147,106,500</u>
Less accumulated depreciation for:				
Buildings	25,831,014	754,239	-	26,585,253
Improvements	13,059,392	1,839,190	-	14,898,582
Machinery and equipment	<u>38,249,254</u>	<u>4,367,792</u>	<u>3,565,676</u>	<u>39,051,370</u>
Total accumulated depreciation	<u>77,139,660</u>	<u>6,961,221</u>	<u>3,565,676</u>	<u>80,535,205</u>
Total capital assets being depreciated, net	<u>69,522,432</u>	<u>(2,949,470)</u>	<u>1,667</u>	<u>66,571,295</u>
Capital assets, net	<u>\$ 72,027,516</u>	<u>1,759,588</u>	<u>1,667</u>	<u>73,785,437</u>

Depreciation of \$6,961,221 was charged to the Public School's governmental functions.

Construction in progress for the Public Schools at June 30, 2011 is composed of project authorizations of \$26,243,828 amounts expended through June 30, 2011 of \$8,866,674 with a remaining balance of \$17,377,154.

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# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2011

	<u>Balance</u> <u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</u>
<b>E/IDA:</b>				
Capital assets, not being depreciated -				
Construction in progress	\$ 21,954,638	4,759,270	21,329,926	5,383,982
Capital assets, being depreciated:				
Buildings	164,536,989	21,674,918	1,570,174	184,641,733
Improvements	13,794,841	194,260	27,185	13,961,916
Infrastructure	2,543,500	-	-	2,543,500
Machinery and equipment	84,674	-	-	84,674
Total capital assets being depreciated	180,960,004	21,869,178	1,597,359	201,231,823
Less accumulated depreciation for:				
Buildings	25,576,969	3,818,162	117,762	29,277,369
Improvements	5,614,772	353,243	-	5,968,015
Infrastructure	424,536	97,766	-	522,302
Machinery and equipment	84,674	-	-	84,674
Total accumulated depreciation	31,700,951	4,269,171	117,762	35,852,360
Total capital assets being depreciated, net	149,259,053	17,600,007	1,479,597	165,379,463
Capital assets, net	\$ 171,213,691	22,359,277	22,809,523	170,763,445

	<u>Balance</u> <u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</u>
<b>PAC:</b>				
Capital assets, not being depreciated -				
Land	\$ 6,604,658	-	-	6,604,658
Construction in progress	12,704,659	2,937,812	11,610,326	4,032,145
Total capital assets not being depreciated	19,309,317	2,937,812	11,610,326	10,636,803
Capital assets, being depreciated:				
Airfield	72,287,800	10,442,394	7,545,182	75,185,012
Terminal	62,498,787	923,990	1,655,042	61,767,735
Other	4,263,829	243,942	1,911,224	2,596,547
Machinery and equipment	1,910,261	-	57,649	1,852,612
Total capital assets being depreciated	140,960,677	11,610,326	11,169,097	141,401,906
Less accumulated depreciation for:				
Airfield	33,563,758	3,350,415	7,443,321	29,470,852
Terminal	19,881,421	2,250,212	1,649,654	20,481,979
Other	2,705,802	116,236	1,522,048	1,299,990
Machinery and equipment	1,910,262	-	57,650	1,852,612
Total accumulated depreciation	58,061,243	5,716,863	10,672,673	53,105,433
Total capital assets being depreciated, net	82,899,434	5,893,463	496,424	88,296,473
Capital assets, net	\$ 102,208,751	8,831,275	12,106,750	98,933,276

**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2011

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

The composition of interfund balances as of June 30, 2011, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Gov. fund: CDBG	\$ 53,459
General Fund	Nonmajor Gov. fund: Police Grants	749,087
Nonmajor Gov. fund: General Capital Imp fund	Bond fund	6,448,431

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 Primary Government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
City of Newport News	Industrial Development Authority	\$14,652,162
Newport News Public Schools	City of Newport News	7,646,883

The IDA Payable of \$14,652,162 represents the outstanding balance of the City's financing of the Applied Research Center (ARC). The repayment includes interest at 3.729%. The IDA's annual payments to the City represent net revenues from the ARC.

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

	<u>Transfers to Other Funds Operating</u>	<u>Transfers from Other Funds Operating</u>
General Fund	\$ 66,300,021	10,500,000
Debt Service Fund	-	45,456,557
Nonmajor governmental funds	10,888,531	31,231,995
Public Utility	10,000,000	
Total interfund transfers	\$ <u>87,188,552</u>	<u>87,188,552</u>

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

**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2011

**(6) Lease Agreements**

**(a) Capital Lease Payments – Primary Government**

Land: The City has a lease agreement with Mariner's Museum through 2018 to finance the acquisition of a parcel of land. The lease is accounted for as a capital lease and recorded at the present value of the future minimum lease payments at the date of inception. The cost of the land is \$3,150,000 and is included in capital assets. The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011 were as follows:

**Years ending June 30:**

**Land Parcel**

2012	\$ 270,811
2013	270,811
2014	270,811
2015	270,811
2016	270,811
2017-2018	<u>541,622</u>
Total	\$ 1,895,677
Less Interest	<u>350,858</u>
Present Value	<u><u>\$ 1,544,819</u></u>

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

The School Board has entered into three lease agreements for financing the acquisition of property and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

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

Buildings	\$ 1,435,000
Machinery and equipment	2,954,247
Less accumulated depreciation	<u>(1,362,809)</u>
Net assets acquired through capital leases	<u><u>\$ 3,026,438</u></u>

**CITY OF NEWPORT NEWS, VIRGINIA**

## Notes to Basic Financial Statements

June 30, 2011

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011, were as follows:

Years ending June 30:	
2012	\$ 722,420
2013	335,215
2014	330,168
2015	99,982
2016	89,490
2017-2020	311,395
Total minimum lease payments	<u>\$ 1,888,670</u>
Less amounts representing interest	<u>(258,682)</u>
Present value of minimum capital lease payments	<u><u>\$ 1,629,988</u></u>

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

The School Board leases machinery, equipment and buildings under non-cancellable operating leases.

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

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

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

	<u>Schools</u>	<u>E/IDA</u>	<u>PAC</u>
Years ending June 30:			
2012	\$ 624,033	826,427	11,040
2013	576,561	828,186	11,040
2014	580,980	1,292,896	10,120
2015	565,488	1,337,439	-
2016	570,086	1,125,375	-
2017 - 2021	483,143	4,800,000	-
2022 - 2026	-	4,800,000	-
2027	-	80,000	-
	<u>\$ 3,400,291</u>	<u>15,090,323</u>	<u>32,200</u>

**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2011

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

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

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

Land	\$ 3,847,430
Buildings	110,293,221
Parking Lots	3,500,661
Less accumulated depreciation	<u>(24,639,094)</u>
Net investment in property held for lease	<u>\$ 93,002,218</u>

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

Minimum future rental income on operating leases as of June 30, 2011 is as follows:

	<u>E/IDA</u>	<u>PAC</u>
Year ending June 30:		
2012	\$ 9,846,488	2,411,672
2013	8,536,931	2,392,997
2014	9,830,234	687,423
2015	7,448,324	650,002
2016	6,660,145	635,466
2017-2021	14,778,597	6,539,176
2022-2026	6,821,574	—
2027-2030	<u>3,684,147</u>	<u>—</u>
Total	<u>\$ 67,606,440</u>	<u>13,316,736</u>

Rental income on operating leases for year ended 2011 was \$10,293,858 and \$2,215,954 for E/IDA and PAC, respectively.

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

The E/IDA is lessor in three direct financing leases on various properties within the City. These lease agreements are agreements with private companies and the Newport News Public Schools to increase the economic activity in the City. The following schedule lists the composition of the net investment in the direct financing leases as of June 30, 2011:

Minimum lease payments to be received	\$ 5,420,689
Less unearned income	<u>(616,759)</u>
Net investment in direct financing leases	<u>\$ 4,803,930</u>



**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2011

Minimum future rental income on these direct financing leases as of June 30, 2011 is as follows:

**Year ending June 30:**

2012	\$ 1,138,897
2013	1,138,897
2014	1,138,897
2015	1,138,897
2016	246,180
2017 - 2021	<u>618,921</u>
Total	\$ <u><u>5,420,689</u></u>

**(7) Long-Term Liabilities**

- (a) A summary of changes in long-term liabilities for governmental activities for the year ended June 30, 2011 follows:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2011</u>	<u>Due within one year</u>
Bonds payable:					
General obligation bonds	\$ 383,752,964	3,040,835	(33,154,890)	353,638,909	36,504,471
Deferred amounts:					
Add bonds premiums	12,640,305	—	(2,105,022)	10,535,283	1,892,447
Net loss on refunded bonds	<u>(7,669,577)</u>	<u>—</u>	<u>1,064,238</u>	<u>(6,605,339)</u>	<u>1,082,143</u>
Total bonds payable	<u>388,723,692</u>	<u>3,040,835</u>	<u>(34,195,674)</u>	<u>357,568,853</u>	<u>39,479,061</u>
Literary loan bonds	7,237,192	—	(519,767)	6,717,425	419,767
Land lease payable	1,544,819	—	—	1,544,819	183,103
Landfill liability	5,568,000	—	(215,000)	5,353,000	226,000
Accrued vacation	17,870,918	12,622,755	(12,056,921)	18,436,752	12,425,818
Net pension obligation	146,489,000	68,015,000	(39,754,000)	174,750,000	—
Net OPEB obligation	9,402,915	18,122,566	(11,830,543)	15,694,938	—
Workers' comp. and other claims	17,907,447	1,198,487	(3,163,491)	15,942,443	3,634,162
Incurred but not reported medical claims	<u>2,922,112</u>	<u>34,212,872</u>	<u>(34,088,175)</u>	<u>3,046,809</u>	<u>3,046,809</u>
Total long-term liabilities	\$ <u><u>597,666,095</u></u>	<u><u>137,212,515</u></u>	<u><u>(135,823,571)</u></u>	<u><u>599,055,039</u></u>	<u><u>59,414,720</u></u>

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

General obligation bonds of \$47.8 million are authorized but unissued.

During the year ended June 30, 2011, the City had drawdowns of VRA loans 08 and 09 amounting to \$96,457 and \$2,944,378 respectively.

At June 30, 2011, approximately \$46 million is considered defeased because refunding trusts have been established to pay for them.

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2011

*Landfill Liability:* The City closed its Denbigh landfill site on June 30, 1996. State and federal laws and regulations require a final cover and the performance of certain maintenance monitoring functions at the site for 30 years after closure. The \$5.4 million liability at June 30, 2011 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 2011. Actual costs may be higher due to inflation, technology changes or regulation changes.

### Outstanding general obligation bonds at June 30, 2011, 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, 2011
VPSA 91	07/15/91	07/15/11	6.40%	\$ 259,057
VRA 93D	09/17/93	06/01/15	3.60%	242,130
VRA 94A	06/02/94	01/01/16	3.60%	1,430,293
VMPL 95C	09/28/95	12/1/2016	4.25%	2,462,565
VPSA 95C	12/01/95	07/15/15	5.20%	1,741,482
VRA 96C	01/24/96	10/01/16	3.65%	1,066,669
VRA 97A	01/30/97	10/01/17	3.70%	1,192,382
VRA 98A	01/22/98	12/01/17	3.70%	962,415
VRA 99A	03/09/99	12/01/19	3.80%	1,439,792
VRA 00A	03/01/00	03/01/21	3.50%	1,634,138
VPSA 00B	11/16/00	07/15/21	5.15%	3,256,444
VRA 01A	04/24/01	05/01/22	4.10%	1,379,738
Series 01A	09/15/01	08/15/12	4.30%	2,500,000
VRA 02A	05/15/02	01/01/23	3.75%	1,896,650
Series 02A	09/26/02	07/01/15	3.50%	7,000,000
Series 02B	09/26/02	07/01/16	3.40%	37,340,000
Series 03A	03/01/03	06/01/12	3.60%	2,260,000
Series 03B	06/03/03	11/01/23	3.80%	8,785,000
VRA 03A	06/24/03	06/01/24	3.50%	2,294,097
QZAB 03A	12/31/03	12/28/18	3.50%	1,090,819
QZAB 03B	12/31/03	12/28/18	3.50%	1,351,675
Series 04A	03/01/04	07/15/24	5.00%	17,500,000
Series 04B	03/01/04	01/15/18	4.50%	17,815,000
Series 04C	03/01/04	05/01/20	5.00%	8,940,000
VRA 04A	06/30/04	09/01/25	3.10%	2,318,351
Series 04D	12/01/04	12/01/24	5.00%	20,410,000
Series 05A	02/01/05	01/15/25	4.00%	10,225,000
VRA 05A	08/24/05	09/01/26	3.50%	2,852,632
Series 06A	02/16/06	02/01/26	4.00%	25,715,000
Series 06B	02/16/06	02/01/19	4.00%	22,185,000
VRA 06A	10/20/06	11/01/27	3.10%	2,478,003
Series 07A	04/05/07	03/01/27	4.10%	34,000,000
Series 07B	04/05/07	07/01/22	5.00%	20,215,000
VRA 07A	09/11/07	09/01/28	3.00%	2,876,197
Series 08A	04/09/08	07/28/28	4.00%	31,535,000
VRA 08	12/12/08	09/01/29	3.50%	2,902,515
Series 09A	05/06/09	06/30/30	3.40%	30,000,000
Series 09B	05/06/09	06/30/20	2.20%	15,275,000
VRA 09	12/16/09	09/01/30	3.35%	4,810,865
Totals				<u>\$ 353,638,909</u>

**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2011

Outstanding literary loans at June 30, 2011, of the Primary Government governmental activities are comprised of the following issues:

<b>Project</b>	<b>Bond Date</b>	<b>Final Maturity Date</b>	<b>Effective Interest Rate (at issue)</b>	<b>Balance June 30, 2011</b>
Warwick High	09/01/99	09/01/19	2%	82,800
Menchville High-2	10/01/00	10/01/20	2%	125,000
Denbigh High-2	08/01/01	08/01/21	2%	134,921
Gildersleeve Middle-2	08/15/01	08/15/21	2%	68,750
Dozier Middle	08/15/01	08/15/21	2%	68,750
Reservoir Middle	05/1/02	05/1/22	2%	68,750
Hines Middle	05/1/02	05/1/22	2%	68,750
Huntington Middle-2	09/1/02	09/1/22	2%	81,405
General Stanford	06/30/07	7/15/27	2%	6,018,299
Totals				<u>\$ 6,717,425</u>

The following table summarizes future debt service requirements as of June 30, 2011:

Fiscal year ending June 30:	General Obligation Bonds		Literary Loans	
	Principal	Interest	Principal	Interest
2012	\$ 36,504,471	15,051,835	\$ 419,767	134,348
2013	32,665,266	13,608,037	419,767	125,953
2014	33,371,509	12,270,347	419,767	117,558
2015	34,136,648	10,823,675	419,767	109,163
2016	29,072,275	9,460,374	419,767	100,767
2017 - 2021	107,220,908	29,457,552	2,089,635	377,906
2022 - 2026	65,962,009	10,225,284	1,820,926	178,160
2027 - 2030	14,705,823	1,082,244	708,029	21,241
Total future debt service	<u>\$ 353,638,909</u>	<u>101,979,348</u>	<u>\$ 6,717,425</u>	<u>1,165,096</u>

**Business-Type Activities**

A summary of changes in long-term liabilities for capital-related, business-type activities for the year ended June 30, 2011 follows:

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2011

		<b>Balance</b>			<b>Balance</b>	<b>Due within</b>
		<b>July 1, 2010</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2011</b>	<b>one year</b>
Bonds payable:						
General obligation bonds	\$	147,080,000	—	12,855,000	134,225,000	13,475,000
Revenue bonds		39,250,000	—	780,000	38,470,000	810,000
Revenue bonds - VRA		—	—	—	—	—
Deferred amounts:						
Add bond premiums		7,813,382	—	1,182,237	6,631,145	1,083,434
Total bonds payable	\$	<u>194,143,382</u>	<u>—</u>	<u>14,817,237</u>	<u>179,326,145</u>	<u>15,368,434</u>
Add deposits		4,248,924	—	234,883	4,014,041	—
Total long term liabilities		<u>198,392,306</u>	<u>—</u>	<u>15,052,120</u>	<u>183,340,186</u>	<u>15,368,434</u>

Outstanding public utility bonds at June 30, 2011 are comprised of the following issues:

<b>Public Utility Bond Series</b>	<b>Issue Date</b>	<b>Final Maturity Date</b>	<b>Interest Rate (At Issue)</b>	<b>Balance June 30, 2011</b>
2001C	08/15/01	08/15/12	4.3%	3,330,000
2002A	09/26/02	07/01/22	4.3%	5,285,000
2002B	09/26/02	07/01/16	3.8%	6,470,000
2003B	06/03/03	11/01/23	4.1%	3,250,000
2004B	03/01/04	01/15/18	3.6%	11,570,000
2004C	03/01/04	05/01/20	3.9%	18,180,000
2006A	02/15/06	02/01/26	4.3%	12,325,000
2006B	02/15/06	02/01/19	4.3%	7,555,000
2007B	04/05/07	07/01/22	5.1%	17,950,000
2007A-IRB	06/30/07	06/01/37	4.6%	38,470,000
2008B	04/09/08	06/30/28	4.5%	22,705,000
2009B	05/06/09	09/01/29	4.3%	25,605,000
<b>Totals</b>				<b>\$ <u>172,695,000</u></b>

The following table summarizes future debt service requirements of Business-type Activities as of June 30, 2011.

	<b>Business-type Activities</b>	
Fiscal year ending June 30:	<b>Principal</b>	<b>Interest</b>
2012	\$ 14,285,000	7,665,208
2013	12,155,000	7,152,796
2014	12,700,000	6,657,678
2015	13,285,000	6,113,679
2016	12,965,000	5,591,127
2017-2021	54,465,000	19,294,577
2022-2026	27,320,000	9,382,490
2027-2031	12,285,000	4,693,913
2032-2036	10,765,000	2,218,200
2037	2,470,000	123,500
Totals	<b>\$ <u>172,695,000</u></b>	<b><u>68,893,168</u></b>

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2011

#### 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, 2011 follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due within one year
Compensated absences	\$ 3,989,889	1,890,318	2,073,341	3,806,866	571,030
Workers' compensation claims	1,597,852	1,046,121	679,473	1,964,500	392,900
Capital leases payable	2,412,823	-	782,835	1,629,988	639,432
Capital facilities notes payable	12,409,516	-	2,034,479	10,375,037	-
Other post employment benefits	28,566,410	6,833,775	7,642,000	27,758,185	-
Incurred but not reported medical claims	2,430,625	29,025,010	28,683,934	2,771,701	2,771,701
Totals	\$ 51,407,115	38,795,224	41,896,062	48,306,277	4,375,063

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

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

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

#### E/IDA and PAC – Component Units

Industrial Revenue Bonds and Notes Payable (the Bonds and Notes) have been issued in the name of E/IDA to finance construction projects. The Bonds and Notes, both as to principal and interest, are payable generally from lease proceeds. In the event of default by the lessee, the holders of the Bonds and Notes have no recourse to the Authorities but must look to the property and lessee for indemnity. Approximately \$7.5 million of the Bonds and Notes are considered a moral obligation of the City. A moral obligation of the City is a contingent guarantee of a third party’s debt. It is referred to as a “moral” obligation because it is not a legal obligation of the City but a good faith obligation, which, if called upon, would require appropriations by City Council of amounts sufficient to pay the guaranteed amounts. Since 1995, when the first moral obligation was issued by the Authorities, there has never been a need to call upon the City to appropriate any funds on morally obligated debt.

**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2011

The E/IDA bonds and Notes at June 30, 2011 are comprised of the following:

<b>Bonds and notes payable</b>	<b>Issue date</b>	<b>Maturity date</b>	<b>Effective interest rates</b>		<b>Balance June 30, 2011</b>
UPS, 04	06/04/04	07/01/15	5.58%	m \$	3,477,693
Sears	03/01/98	10/01/18	5.40%	mm	6,847,203
VSS	03/01/98	10/01/18	5.40%	mm	6,215,197
Coats and Clark	01/01/99	12/01/18	4.23%		783,684
Hiddenwood Center	03/30/00	04/01/20	6.04%		617,582
Downtown Engineering	04/05/00	07/01/31	7.64%		20,020,000
Merchant's Walk Garage	12/21/10	12/01/20	2.70%	a	8,940,000
PrintPack	08/15/03	08/01/13	2.69%		2,580,000
City Oper Center Area	12/07/04	07/01/26	3.00%	a	1,720,000
Fountain Way Garage	12/07/04	07/01/31	4.19%	a	14,005,000
Conference Center	12/07/04	07/01/31	4.19%	a	4,265,000
Hotel Promissory Note	12/07/04	07/01/31	4.19%	a	3,245,000
Rouse Project	12/29/05	01/15/31	5.14%	a	14,985,000
Mariner's Row Garage	12/29/05	01/15/31	5.14%	a	12,790,000
\$18.9 M Conference Center	06/30/06	07/01/31	4.00%	a	18,900,000
CITI A '07	02/26/07	08/01/22	6.85%		2,943,541
CITI B '07	02/26/07	08/01/22	5.59%		625,247
Oriana Road - Note	07/24/06	07/08/15	6.50%		1,949,648
809 Omni Blvd - Note	08/13/07	08/13/12	1.36%		2,000,000
Totals					<u>126,909,795</u>
Premium on bonds payable					683,322
Discount on bonds payable					(63,582)
Add interest rate swap fair value					<u>5,508,287</u>
Total bonds payable, net				\$	<u><u>133,037,822</u></u>

m balance denotes moral obligation of the City

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

a denotes payment agreement with the City

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

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

June 30, 2011

*Conduit Debt Obligations:* From time to time the E/IDA has issued Industrial Revenue Bonds (the Bonds) to provide financial assistance to private-sector and nonprofit entities for the acquisition and construction of industrial, commercial and residential facilities deemed to be in the public interest. The Bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the Bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the Bonds. Furthermore, in the event of default by the lessee, the holders of the Bonds have no recourse to the E/IDA, but must look to the property and lessee for indemnity. Accordingly, the Bonds are not reported as liabilities in the accompanying basic financial statements.

As of the end of the fiscal year, there are two series of the Bonds outstanding, with an aggregate principal amount payable of approximately \$32 million. Approximately \$0.2 million of the Bonds and Notes are considered a moral obligation of the City.

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

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

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

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

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

Because interest rates have declined since the execution of the swaps, the swaps had a combined negative fair value of \$5,508,287 as of June 30, 2011. If the Series 2000A or 2000B interest swaps were terminated, the

**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

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Authorities would be required to pay a termination payment in the amount of the fair value of the swap as of the termination date.

The PAC Airport Improvement Revenue Bonds at June 30, 2011, are comprised of the following:

<b>Series</b>	<b>Issue Date</b>	<b>Maturity Date</b>	<b>Eff. Int. Rate (%)</b>	<b>Balance July 1, 2010</b>	<b>Reductions</b>	<b>Balance June 30, 2011</b>	<b>Amt Due in one year</b>
2001	04/15/01	07/16/21	5.05-5.5	\$ 4,780,000	290,000	4,490,000	310,000
2002	07/03/02	07/01/27	4.5	1,977,032	80,333	1,896,699	83,232
2005A	12/15/05	01/15/32	4.3	6,408,975	185,483	6,223,492	192,836
2005B	12/15/05	01/15/32	5.8	2,792,152	67,343	2,724,809	70,959
Totals				<u>\$ 15,958,159</u>	<u>623,159</u>	<u>15,335,000</u>	<u>657,027</u>

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

	<b>E/IDA</b>		<b>PAC</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
Fiscal year ending June 30:				
2012	\$ 8,241,780	6,706,207	657,027	740,119
2013	10,415,424	6,197,474	688,506	709,460
2014	10,099,707	5,665,767	720,781	677,005
2015	10,107,237	5,222,161	758,891	640,083
2016	7,481,423	4,693,741	797,878	603,023
2017-2021	33,657,932	17,906,449	4,658,009	2,359,427
2022-2026	22,911,305	10,294,054	3,566,730	1,244,013
2027-2031	21,985,000	3,590,126	3,117,633	474,014
2032	2,010,000	47,756	369,545	6,320
Total	<u>\$ 126,909,808</u>	<u>60,323,735</u>	<u>15,335,000</u>	<u>7,453,464</u>

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# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

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### (8) Defined Benefit Retirement Plans

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

##### 1. Plan Description

The Newport News Employees' Retirement Fund (NNERF) is a single employer, defined benefit, public employee retirement system established and administered by the City to provide pension benefits for employees of the local government, including the Newport News School System (NNSS). For those school teachers and administrative support personnel employed by the Newport News School Board, the City plan is a supplement to the Virginia Retirement System. The fund has been closed to all hires effective July 1, 2009 for the NNSS and effective March 1, 2010 for the City.

NNERF is a separate pension trust fund and is considered part of the City's financial reporting entity. The City issues a publicly available financial report that includes financial statements and required information for NNERF. That report may be obtained by writing to City of Newport News Finance Department, 2400 Washington Avenue, Newport News, VA 23607.

All full-time regular employees hired prior to March 1, 2010 for the City and hired prior to July 1, 2009 for NNSS are members of this fund. Employees hired after the above dates are in the Virginia Retirement System, an agent multiple-employer defined benefit pension plan. For the years ended June 30, 2011 and June 30, 2010, the total payroll of the City was approximately \$342.9 million and \$347.4 million respectively, with approximately \$261.8 million and \$283.1 million covered by NNERF. At June 30, 2011, NNERF membership consisted of:

	Retirees and Beneficiaries	Vested Terminated Employees	Active Employees Vested	Active Employees Non-Vested	Total
City general	997	624	1,084	341	3,046
City police and fire	695	235	657	305	1,892
Public utilities	206	116	239	48	609
School VRS	2,124	1,064	2,340	557	6,085
School Non-VRS	696	219	683	184	1,782
Total	4,718	2,258	5,003	1,435	13,414

NNERF provides retirement benefits as well as death and disability benefits. All benefits vest after five years of credited service. Employees who retire at or after age 60 (50 for police officers, firefighters and deputy sheriffs) with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.0% of their average final compensation for each year of credited service worked through February 28, 2010 and 1.85% of their average final compensation for each year of credited service after March 1, 2010. Average final compensation is defined as the average annual compensation paid during the member's 36 highest paid consecutive months of credited service. Employees with 30 years (25 for police officers, firefighters and deputy sheriffs) credited service may retire at any age with full benefits. Employees (other than police officers, firefighters and deputy sheriffs) with 25 years of service may

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retire prior to age 60 and receive a reduced benefit. Covered employees do not contribute to NNERF.

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.

**2. Concentrations**

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

**3. Contributions Required and Contributions Made**

NNERF funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age actuarial cost method. The amortization period for the unfunded actuarial accrued liability has been reduced from 40 years to 30 years to comply with the requirements of GASB Statement No. 27.

Contributions for normal costs totaling \$27,398,599 and \$21,167,724 were made by the employer during the years ended June 30, 2011 and June 30, 2010. The percentage of employer contributions to current year covered payroll for the fiscal year ending June 30, 2011 was 10.5% and 7.5% for the fiscal year ending June 30, 2010.

The percentage of normal cost to covered payroll was 5.07% and 4.98% for fiscal years ending June 30, 2011 and June 30, 2010 respectively. The employer's annual pension cost and net pension obligation to NNERF for 2011 and 2010 were as follows:

(000's Omitted)

	<b>2011</b>	<b>2010</b>
Annual Required Contribution (ARC)	\$ 56,662	\$ 40,967
Interest on net pension obligation	11,353	9,886
Adjustment to ARC	(12,355)	(10,759)
Annual pension cost	55,660	40,094
Contributions made	(27,399)	(21,168)
Increase in net pension obligation	28,261	18,926
Net pension obligation (asset), beginning of year	146,489	127,563
Net pension obligation (asset), end of year	<u>\$ 174,750</u>	<u>\$ 146,489</u>

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**Schedule of Funding Progress** (in millions):

The funded status of the plan as of June 30, 2011 was as follows:

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, 2011	\$ 641	1,145	(504)	56%	262	-192.4%

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

The annual required contribution for the current year was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The amortization method used is level dollar open. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses) (b) projected salary increase of 1.50% per year and (c) 1.90% per year cost-of-living adjustments. All assumptions include an inflation component of 2.8%. The assumptions did not include funding of other post-retirement benefit. The actuarial value of assets was determined under the average value method.

**4. Three-Year Trend Information**

(000's omitted)

Fiscal year ended	Annual Pension Cost (APC)	Percentage of APC contributed	Net pension obligation (asset)
June 30, 2011	\$ 55,660	49.2%	\$ 174,750
June 30, 2010	40,094	52.8%	\$ 146,489
June 30, 2009	39,597	49.9%	127,563

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

**1. Plan Description**

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

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

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

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

**June 30, 2011**

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

- Member hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least five years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

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

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

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the report may be obtained from the VRS Web site at

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

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<http://www.varetire.org/Pdf/Publications/2010-annual-report.pdf> or by writing to the System's Chief Financial Officer at P. O. Box 2500, Richmond, VA, 23218-2500.

#### 2. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. For the year ended June 30, 2011, the City and PAC have assumed their member contribution; NNSS has assumed 1.07% of the 5.00%. In addition, the City, NNSS and the PAC is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The contribution rate for the fiscal year ended June 30, 2011 were 11.71%, 8.93% and 7.99% of covered annual payroll for the City, NNSS and PAC, respectively.

#### 3. Annual Pension Cost

For the fiscal year ended June 30, 2011, the annual pension cost of \$1.1 million, \$14.1 million and \$0.2 million for the City, NNSS and the PAC, respectively, was equal to the required to the required and actual contributions.

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

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

NNSS (Single Employer): The annual required contributions for the single employer plan were determined as part of the June 30, 2010 actuarial valuation. The actuarial assumptions included (a) a rate of return on investment of 7.0% to 7.5% (b) projected annual cost-of-living adjustments of 2.50% and salary increases that range between 3.75% and 5.60% depending upon the member's service and classification). Liabilities were determined under the Entry Age Normal actuarial cost method. There is no unfunded actuarial accrued liability at June 30, 2011 but if there is one in the future it would be amortized as a level percentage of payroll on an open basis within a period of 20 years.

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

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### 4. Schedule of Funding Progress

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

	<b>Fiscal year ending</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC contributed</b>	<b>Net pension obligation</b>
NNSS	06/30/11	\$ 14,086,314	100.0%	-
	06/30/10	\$ 18,446,055	100.0%	-
	06/30/09	22,520,695	100.0%	-
PAC	06/30/11	191,304	100.0%	-
	06/30/10	185,696	100.0%	-
	06/30/09	177,407	100.0%	-

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

### 5. Funded Status

The City: The City was not part of the valuation for that period and therefore is unable to provide the funded status for the fiscal year ended June 30, 2011.

The PAC: As of June 30, 2010, the most recent actuarial valuation date, the plan was 84.2% funded. The actuarial accrued liability for benefits was \$5,396,540 and the actuarial value of assets was \$4,544,780 resulting in an unfunded actuarial accrued liability (UAAL) of \$851,760. The covered payroll (annual payroll of active employees covered by the plan) was \$2,318,877, and the ratio of the UAAL to the covered payroll was and 36.73%.

The funded status of the Peninsula Airport Commission (PAC) Retirement plan as of June 30, 2011 was as follows:

(in thousands)

<b>Actuarial valuation date</b>	<b>Actuarial value of assets</b>	<b>Actual accrued liability (AAL)</b>	<b>(unfunded) accrued liability (UAAL)</b>	<b>Funded ratio</b>	<b>Covered payroll</b>	<b>UAAL as a percentage of covered payroll</b>
June 30, 2010	\$ 4,545	5,397	(852)	84.2%	2,319	-36.7%

The City was not part of the valuation for that period and therefore is unable to provide the funded status for the fiscal year ended June 30, 2011.

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

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

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

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#### **(9) Other Post Employment Benefits (OPEB) Trust Funds**

##### **(a) City of Newport News**

###### **1. Plan Description**

The OPEB Trust Fund is a single employer plan administered by the City to provide health, dental and life insurance benefits for City retirees. The Fund has been closed to all hires after July 1, 2009 for the NNSS and after March 1, 2010 for the City. In addition to the closure to new hires during FY2010, NNSS received \$1,587,570 from the Fund to establish and maintain their own OPEB trust. As of June 30, 2011, the City's Fund was valued at \$16.3 million. 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 assets, income and expenses of the OPEB fund will include NNSS through FY2009.

The City offers health and dental coverage to eligible retirees and their eligible dependents. Effective July 1, 2005, the City's medical contribution amount was capped and is annually indexed by the CPI. For those employees who were not eligible to retire before July 1, 2005, medical premiums are paid according to years of service. Employees must have at least 10 years of service to receive a premium contribution. Those having 25 years or more will receive the maximum contribution. At age 65, the retiree's coverage converts to Medicare Extended. The life insurance benefit is 50% of salary for City participants who are retired or are eligible to retire before July 1, 2005. For those participants not eligible to retire before July 1, 2005, the life insurance benefit is 50% of salary, reduced 20% per year after retirement but not below \$10,000. Life insurance is provided at no cost to retirees. The employer's cost is paid out of the OPEB Fund.

Approximately 306 NNSS retirees participate in the OPEB Fund's sponsored life insurance coverage. These retirees have elected coverage under the OPEB fund. NNSS reimburses the OPEB Fund for the premium cost.

Benefit provisions for the City are established and amended through City Council. Since 1958, the City has allowed employees to continue their coverage after retirement. Life insurance to retirees at no cost is provided by Ordinance Sec. 2-151 and 2-148.

The City funds the costs of retiree health and life insurance through the annual pension contribution amount. The actuary computes the current and next years' cost of these in the annual actuary study. The pension plan then pays the premiums and administrative costs out of its funds.

The actual costs to the fund for the 4,718 retirees for fiscal year 2011 were: health \$8,790,299 (1,347 participating); dental \$503,747 (1,360 participating); and life \$341,297 (1,694 participating). The actual costs to the fund for the 4,642 retirees for fiscal year 2010 were: health \$8,615,927 (1,408 participating); dental \$487,528 (1,308 participating); and life \$335,247 (1,669 participating).

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

The OPEB Fund is a separate pension trust fund and is considered part of the City's financial reporting entity. The NNERF issues a publicly available financial report that includes financial statements and required information for the OPEB Fund. That report may be obtained by writing to NNERF, 2400 Washington Avenue, Newport News, VA 23607.

**2. Contribution Required and Contributions Made**

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

Contributions to normal costs totaling \$11.8 million, \$12.1 million and \$12.4 million were made during the years ended June 30, 2011, June 30, 2010 and June 30, 2009. The City and Schools annual OPEB cost for the current year and the related information for each plan are as follows:

*(in millions)*

	<b>2011</b>		<b>2010</b>		<b>2009</b>		
	<u><b>City</b></u>	<u><b>Total</b></u>	<u><b>City</b></u>	<u><b>Total</b></u>	<u><b>City</b></u>	<u><b>NNSS</b></u>	<u><b>Total</b></u>
Actuarial Required Contribution (ARC)	\$ 18.3	\$ 18.3	\$ 13.4	\$ 13.4	\$ 12.5	\$ 14.9	\$ 27.4
Actual Contribution	11.8	11.8	12.1	12.1	9.2	3.2	12.4
Increase in net OPEB obligation	<u>\$ 6.5</u>	<u>\$ 6.5</u>	<u>\$ 1.3</u>	<u>\$ 1.3</u>	<u>\$ 3.3</u>	<u>\$ 11.7</u>	<u>\$ 15.0</u>

The percentage of annual OPEB cost contributed to the plan for the City was 64.68% for fiscal year 2011.

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**Funded Status and Funding Progress**

The funded status of the plans as of June 30, 2011, June 30, 2010 and June 30, 2009 were as follows:

(in millions)

	<u>2011</u>		<u>2010</u>		<u>2009</u>		
	<u>City</u>	<u>Total</u>	<u>City</u>	<u>Total</u>	<u>City</u>	<u>NNSS</u>	<u>Total</u>
Actuarial value of assets	\$ 14.1	\$ 14.1	\$ 10.4	\$ 10.4	\$ 6.5	\$ 1.6	\$ 8.1
Actuarial Accrued Liability (AAL)	232.0	232.0	237.4	237.4	215.4	187.8	403.2
Unfunded AAL (UAAL)	<u>\$ 217.9</u>	<u>\$ 217.9</u>	<u>\$ 227.0</u>	<u>\$ 227.0</u>	<u>\$ 208.9</u>	<u>\$ 186.2</u>	<u>\$ 395.1</u>

The schedule of funding progress as of June 30, 2011, June 30, 2010 and June 30, 2009 were as follows:

(in millions)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	
	<u>City</u>	<u>City</u>	<u>City</u>	<u>NNSS</u>
Funded ratio	6.0 %	4.0 %	3.0% %	1.0 %
Covered Payroll	\$ 118.6	\$ 124.9	\$ 135.8	\$ 181.0
UAAL as a percentage of covered payroll	184.0 %	182.0 %	154.0 %	103.0 %

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 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	6/30/11
Actuarial cost method	Projected Unit Credit
Amortization method	Level Dollar Closed
Remaining amortization period	29 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	4%
Projected salary increases	3%
Healthcare inflation rate	1.9% and beyond

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

**1. Plan Description**

In FY 2000, an OPEB fund was established to accumulate assets to pay for other post employment benefits. The fund is administered by the City to provide health, dental and life insurance benefits for City and School Board retirees. During FY 2010, the 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 now a single-employer plan. Benefits and contribution provisions are established by the School Board and may be amended only by the School Board. An actuarial service is employed to advise the School Board of the contributions necessary to fund the benefits.

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

Approximately 306 School Board retirees participate in the City OPEB Fund's sponsored life insurance coverage. These retirees have elected supplemental coverage under the City OPEB fund.

The OPEB Trust Fund does not issue a separate report.

*Contribution Required and Contributions Made*

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

Contributions to normal costs totaling \$1.0 million were made during the year ended June 30, 2011. The School Board's annual OPEB cost for the current year is as follows:

(In millions)

Actuarial Required Contribution (ARC)	\$7.1
Interest on net pension obligation	2.2
Adjustment to ARC	<u>(2.5)</u>
Annual pension cost	6.8
Actual Contribution	<u>7.6</u>
Decrease in net OPEB obligation	(0.8)
Net OPEB obligation, beginning of year	<u>28.6</u>
Net OPEB obligation, end of year	<u>\$27.8</u>

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**Funded Status and Funding Progress**

The funded status of the plans as of June 30, 2011 was as follows:

<i>(in millions)</i>	<b><u>School Board</u></b>
Actuarial value of assets	\$ 6.8
Actuarial Accrued Liability (AAL)	<u>77.8</u>
Unfunded AAL (UAAL)	<u><u>\$ 71.0</u></u>
	<b><u>School Board</u></b>
Funded ratio	8.7%
Covered Payroll	\$ 147.0
UAAL as a percentage of covered payroll	48.3%

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

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

Actuarial valuation date	6/30/10
Actuarial cost method	Projected Unit Credit
Amortization method	Level Dollar Closed
Amortization period	30 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	NA%
Healthcare inflation rate	4.50%

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

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

**June 30, 2011**

#### **(10) Deferred Compensation Plans**

##### **(a) 457 Deferred Compensation Plan**

Employees of the City, except those of the School System, 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 plan, employees may elect to defer a portion of their salaries and postpone paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency.

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, or combinations thereof. Under the terms of an IRC Sec. 457 Deferred Compensation Plan, 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)**

Effective March 1, 2010, all full-time employees of the City, except those of the School System, 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 wage rate paid to all employees. For FY 2011, based on an average City salary of \$42,723, the City is contributing \$1,282 per participant. At year ending June 30, 2011, the City contributed a total of \$344,911 to the HRA accounts. The accumulated amounts are available to participants at retirement or age 55 if terminated prior to reaching retirement eligibility. The Plan reimburses the participant, the participant's spouse, and dependents for insurance premiums or other medical payments expended for permissible benefits described under the plan. HRA participants cannot be members of the City's OPEB Fund.

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

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**CITY OF NEWPORT NEWS, VIRGINIA**  
Notes to Basic Financial Statements  
June 30, 2011

**(11) Self Insurance**

**(a) Medical Benefits**

The School Board is self-insured for medical benefits through the respective General Funds for employees up to \$175,000, per employee per year, and 110% of adjusted subscriber charges for the year (\$28.1 million for 2011). The City self-insures for medical benefits for its employees up to \$200,000 per employee per year whichever is less. Claims in excess of the limitation are covered by third-party insurance. Expenditures are charged to the fund to which the employees' payroll expenditure is charged at amounts that approximate what third-party insurers would have charged. The insurance coverage is substantially the same as in prior fiscal years.

Claims processing and payments for the medical claims are made through a third-party administrator. The City and the School Board's settlement using reinsurance did not exceed insurance for fiscal years 2011 or 2010. Both the City and the School Board uses the information provided by the third-party administrator to aid in the determination of self-insurance liabilities. Amounts due in future years on claims as of June 30, 2011 are recognized as a long-term liability in the statement of net assets.

Changes in the medical incurred but not reported amount during the fiscal years ended June 30, 2010 and 2011 for the City and the Public Schools were as follows:

	<b>City</b>		<b>Public Schools</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Claims payable at beginning of year	\$ 2,922,112	2,207,602	2,430,625	2,204,000
Claims and changes in estimates	34,212,872	32,022,120	29,025,010	26,119,024
Claim payments	(34,088,175)	(31,307,610)	(28,683,934)	(25,892,399)
Claims payable at end of year	<u>\$ 3,046,809</u>	<u>\$ 2,922,112</u>	<u>2,771,701</u>	<u>2,430,625</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, 2011 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, 2010 and 2011 for the City and the Public Schools.

	<b>City</b>		<b>Public Schools</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Claims payable at beginning of year	\$ 12,070,325	12,453,477	1,597,852	1,484,181
Claims and changes in estimates	1,138,155	2,235,067	1,046,121	728,781
Claim payments	(2,318,862)	(2,618,219)	(679,473)	(615,110)
Claims payable at end of year	<u>\$ 10,889,618</u>	<u>12,070,325</u>	<u>1,964,500</u>	<u>1,597,852</u>

A loss analysis was conducted by Oliver Wyman Actuarial Consulting, Inc. on this fund. The total actuarially computed liability as of June 30, 2011 for the City and School Board was determined to be approximately \$10.9 million and \$2.0 million, respectively.

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2011

#### (c) *Other*

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

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

<b>Auto &amp; General Liability</b>	<b>City</b>	
	<b>2011</b>	<b>2010</b>
Claims payable at beginning of year	\$ 5,837,122	\$ 3,396,057
Claims and changes in estimates	60,332	3,927,679
Claim payments	(844,629)	(1,486,614)
Claims payable at end of year	<u>\$ 5,052,825</u>	<u>\$ 5,837,122</u>

The auto and general liability claims decreased from \$5.8 million to \$5.1 million due to the settlement of one large auto claim and two significant general liability claims.

#### (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, 2011, will not be material to the financial statements.

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

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

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

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

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

**June 30, 2011**

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

The HRRJA is a political subdivision of the Commonwealth of Virginia, created December 14, 1993, by the cities of Hampton, Newport News, Norfolk and Portsmouth. The HRRJA is governed by a twelve-member board, consisting of three members from each city. The purpose of the intergovernmental authority is to develop, construct, equip, maintain and operate a regional jail. No one locality contributes more than 50% of the HRRJA funding or has responsibility over its operations. Separate financial statements are available from the Hampton Roads Regional Jail Authority, 2690 Elmhurst Lane, Portsmouth, Virginia 23701-2745.

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

The HREDA is a non-profit, public-private partnership that aggressively markets Virginia's Hampton Roads region as the primary region of choice for economic investment and business expansion. All HREDA business attraction initiatives and activities are designed to promote the jurisdictions of Chesapeake, Gloucester, Hampton, Isle of Wight County, James City County, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach, Williamsburg and York County, Virginia. The business affairs is managed by a Board of not less than fifty nor more than 300 Directors. The City's Mayor and the Director of E/IDA are board members. HREDA receives funding from both private and public entities. Newport News contributed \$170,195 in FY 11. Separate financial statements are available from the HREDA, 500 E. Main Street, Suite 1300, Norfolk, Virginia 23510.

#### **(13) Subsequent Events**

In July 2011, the City issued \$42,000,000 of general obligation improvement bonds Series 2011A with a true interest cost of 3.312% and a maturity date of July 1, 2031. The net proceeds of the \$46,102,791 (after an original issue premium of \$4,258,401 and payment of \$155,610 for underwriting fees) were used to fund on-going capital projects.

In July 2011, the City also issued \$9,820,000 of general obligation general improvement refunding bonds and \$500,000 of general obligation water refunding bonds, Series 2011B with a true interest cost of 1.939% and a maturity date of July 1, 2019. The net proceeds of \$11,327,365.34 (after an original issue premium of \$1,035,231.40 and payment of \$27,866.06 for underwriting fees) were used to fund on-going improvements to the regional water system. The refunding generated net present value savings of \$531,290 or 5.34% as a percent of the refunded bonds. Of the \$531,290, \$504,468 was allocated to the City's general improvement bonds and \$26,822 was allocated to the City's water bonds. The City funded the refunding escrow with Open Market Securities.

On August 27, 2011, Hurricane Irene caused widespread damage to Newport News. The City continues to assess the cost of emergency services, debris removal and property damage. The City expects to recover approximately 97% of its costs through reimbursements from its insurance carrier, the Federal Emergency Management Agency (FEMA) and the Commonwealth of Virginia.

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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, 2011

	<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	\$ 163,500,571	163,500,571	162,313,908	(1,186,663)
Real and personal public service corporation property taxes	4,932,918	4,932,918	5,613,910	680,992
Personal property taxes	43,593,000	43,593,000	45,549,053	1,956,053
Machinery and tools taxes	14,705,000	14,705,000	16,359,153	1,654,153
Penalties and interest	1,085,000	1,085,000	1,023,685	(61,315)
Total general property taxes	227,816,489	227,816,489	230,859,709	3,043,220
Other local taxes:				
E-911 service revenue	679,288	679,288	729,711	50,423
Telecom sales taxes	12,000,000	12,000,000	12,321,643	321,643
Local sales and use taxes	20,627,000	20,627,000	21,206,724	579,724
Consumers' utility taxes	5,920,000	5,920,000	6,511,120	591,120
Consumption tax	700,000	700,000	674,265	(25,735)
Business license taxes	13,871,000	13,871,000	15,115,176	1,244,176
Rental car taxes	960,000	960,000	1,044,775	84,775
Motor vehicle license	3,900,000	3,900,000	3,880,996	(19,004)
Bank stock taxes	655,000	655,000	957,902	302,902
Taxes on recordation and wills	1,500,000	1,500,000	1,065,889	(434,111)
Tobacco taxes	4,119,000	4,119,000	4,269,564	150,564
Hotel and motel room taxes	2,600,000	2,600,000	3,064,515	464,515
Restaurant food taxes	17,500,000	17,500,000	17,767,348	267,348
Amusement taxes	475,000	475,000	453,712	(21,288)
Total other local taxes	85,506,288	85,506,288	89,063,340	3,557,052
Permits, privilege fees, and regulatory licenses:				
Animal licenses	57,000	57,000	58,675	1,675
Permits and other licenses	2,441,178	2,539,178	3,313,467	774,289
Total permits, privilege fees, and regulatory licenses	2,498,178	2,596,178	3,372,142	775,964
Fines and forfeitures	1,886,833	1,886,833	2,331,671	444,838
Revenue from use of money and property:				
Revenue from use of money	619,000	619,000	398,467	(220,533)
Revenue from use of property	1,777,542	1,777,542	1,861,402	83,860
Total revenue from use of money and property	2,396,542	2,396,542	2,259,869	(136,673)
Charges for services:				
Court costs	1,284,097	1,284,097	1,031,230	(252,867)
Law enforcement and traffic control	86,158	86,158	124,200	38,042
Fire and rescue services	3,455,000	3,455,000	3,740,442	285,442
Information Technology	1,150,827	1,150,827	1,150,764	(63)
Parks and recreation	7,354,088	7,354,088	6,446,410	(907,678)
Cultural enrichment	166,430	166,430	146,894	(19,536)
Self-insurance premiums	1,912,090	1,912,090	1,990,734	78,644
Library	65,000	65,000	67,680	2,680
Planning and community development	104,000	6,000	9,894	3,894
Indirect costs	2,346,420	2,346,420	2,346,419	(1)
Animal services	53,163	53,163	42,866	(10,297)
Applied research center	553,758	553,758	553,758	-
Total charges for services	\$ 18,531,031	18,433,031	17,651,291	(781,740)

**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, 2011

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Recovered costs:				
Health department	\$ 47,127	47,127	38,400	(8,727)
Juvenile detention home	3,667,647	3,667,647	3,771,305	103,658
City farm	886,000	886,000	796,256	(89,744)
City jail	1,192,681	1,192,681	960,325	(232,356)
Sewer assessments - debt service	37,000	37,000	644,165	607,165
Total recovered costs	5,830,455	5,830,455	6,210,451	379,996
Miscellaneous revenue:				
Payments in lieu of taxes	2,779,548	2,779,548	2,720,052	(59,496)
Miscellaneous	594,795	594,795	727,674	132,879
Total miscellaneous revenue	3,374,343	3,374,343	3,447,726	73,383
Total revenue from local sources	347,840,159	347,840,159	355,196,199	7,356,040
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' taxes	45,289	45,289	58,958	13,669
Mobile home titling taxes	-	-	54,368	54,368
Tax on deeds	200,000	200,000	229,301	29,301
State rebate – recording tax	-	-	414,923	414,923
DCJP grants for law enforcement	8,641,457	8,641,457	8,564,895	(76,562)
Total noncategorical aid	8,886,746	8,886,746	9,322,445	435,699
Shared expenses:				
Technology trust fund	100,000	136,014	135,771	(243)
Commonwealth's attorney	1,645,352	1,645,352	1,602,379	(42,973)
Sheriff	7,266,866	7,266,866	6,783,483	(483,383)
Commissioner of the revenue	217,079	217,079	350,635	133,556
Treasurer	191,026	191,026	322,389	131,363
Registrar/electoral board	64,352	64,352	56,642	(7,710)
Total shared expenses	9,484,675	9,520,689	9,251,299	(269,390)
Categorical aid:				
Emergency services grant	52,408	52,408	52,408	-
Welfare	29,378,664	29,378,664	29,092,039	(286,625)
Emergency medical service funds	118,750	118,750	-	(118,750)
Library	169,416	169,416	160,154	(9,262)
Other	-	-	331,191	331,191
Total categorical state aid	29,719,238	29,719,238	29,635,792	(83,446)
Total revenue from the Commonwealth	48,090,659	48,126,673	48,209,536	82,863
Other financing sources:				
Transfers from other funds	10,500,000	10,500,000	10,500,000	-
Total revenue	\$ 406,430,818	406,466,832	413,905,735	7,438,903

**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, 2011

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures:				
General government administration:				
Legislative:				
City Council	\$ 318,549	318,549	289,434	29,115
City Clerk	383,230	383,230	363,195	20,035
Total legislative	701,779	701,779	652,629	49,150
General and financial administration:				
City manager	1,430,027	1,430,027	1,292,810	137,217
Human resources	1,347,100	1,347,100	1,197,152	149,948
Medical services	64,887	64,887	65,460	(573)
City attorney	1,681,934	1,681,934	1,643,058	38,876
Video production service	476,052	476,052	479,726	(3,674)
Internal auditor	530,166	530,166	533,211	(3,045)
Commissioner of the Revenue	2,758,572	2,758,572	2,615,405	143,167
Real estate assessor	1,674,964	1,674,964	1,694,398	(19,434)
City treasurer	2,170,244	2,170,244	2,090,211	80,033
Finance	1,263,868	1,263,868	1,251,694	12,174
Budget and evaluation	662,592	662,592	692,738	(30,146)
Auto self-insurance	1,384,500	1,584,500	1,499,118	85,382
General liability self-insurance	1,244,100	1,694,100	1,689,582	4,518
Workers' compensation	3,321,600	3,321,600	2,670,836	650,764
Purchasing	1,369,365	1,369,365	1,317,302	52,063
Information technology	8,392,548	8,392,548	7,951,240	441,308
Total general and financial administration	29,772,519	30,422,519	28,683,941	1,738,578
Board of elections -				
Registrar	475,790	475,790	426,083	49,707
Nondepartmental:				
Appointed boards	117,361	117,361	89,470	27,891
Community support	2,252,634	2,252,634	2,247,694	4,940
Contract community agencies	5,419,605	5,419,605	5,419,535	70
City development	2,131,112	2,131,112	138,813	1,992,299
Contractual services	1,036,672	1,036,672	959,133	77,539
Internal services	117,000	117,000	6,082	110,918
Machinery and equipment	571,000	571,000	439,263	131,737
Street lighting	796,675	796,675	267,256	529,419
Other	3,316,321	3,316,321	7,684,313	(4,367,992)
Total nondepartmental	15,758,380	15,758,380	17,251,559	(1,493,179)
Total general government administration	46,708,468	47,358,468	47,014,212	344,256
Judicial administration:				
Courts:				
Circuit courts	472,411	472,411	446,028	26,383
District courts	268,525	268,525	199,622	68,903
Office of the Magistrate	265,050	265,050	246,925	18,125
Juvenile/domestic relations court	45,801	45,801	53,047	(7,246)
Clerk of the circuit court	1,561,816	1,597,830	1,496,773	101,057
Court services	501,258	501,258	431,928	69,330
Total courts	3,114,861	3,150,875	2,874,323	276,552
Commonwealth's attorney	3,711,713	3,711,713	3,702,853	8,860
Total judicial administration	\$ 6,826,574	6,862,588	6,577,176	285,412

**CITY OF NEWPORT NEWS, VIRGINIA**  
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General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual (Budget Basis)  
Year ended June 30, 2011

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 44,430,707	44,430,707	43,899,376	531,331
Emergency communications	305,680	305,680	326,225	(20,545)
Total law enforcement and traffic control	44,736,387	44,736,387	44,225,601	510,786
Fire and rescue services:				
Fire department	28,272,827	28,272,827	28,729,541	(456,714)
Ambulance and rescue service	1,828,070	1,828,070	1,749,886	78,184
Total fire and rescue services	30,100,897	30,100,897	30,479,427	(378,530)
Correction and detention:				
Sheriff	19,138,333	19,138,333	18,300,017	838,316
Adult corrections	4,472,828	4,472,828	4,341,507	131,321
Juvenile detention	7,808,997	7,808,997	7,431,943	377,054
Total correction and detention	31,420,158	31,420,158	30,073,467	1,346,691
Inspection – codes compliance	2,847,092	2,847,092	2,747,944	99,148
Total public safety	109,104,534	109,104,534	107,526,439	1,578,095
Public works:				
Engineering:				
Administration	728,391	728,391	608,111	120,280
Civil services	987,896	987,896	999,635	(11,739)
Facilities engineering	910,638	910,638	874,395	36,243
Technical support	720,329	720,329	687,517	32,812
Site & subdivision services	339,528	339,528	341,946	(2,418)
Operation engineering	2,150	2,150	742	1,408
Environmental services	159,935	159,935	171,882	(11,947)
Transportaion services	1,750,119	1,750,119	882,765	867,354
Total engineering	5,598,986	5,598,986	4,566,993	1,031,993
Public works administration	1,107,603	1,107,603	12,395	1,095,208
Maintenance of highways, streets, bridges, and sidewalks	17,483	17,483	1,750,745	(1,733,262)
Maintenance of general buildings and grounds	9,045,974	9,045,974	8,419,906	626,068
Total public works	15,770,046	15,770,046	14,750,039	1,020,007
Health and welfare:				
Health -				
Medical services	3,586,630	3,586,630	3,441,396	145,234
Welfare:				
Social services administration	8,574,485	8,574,485	7,728,127	846,358
Financial services	7,203,016	7,203,016	6,288,617	914,399
Social work services	20,319,142	20,319,142	20,184,656	134,486
Healthy families	1,174,409	1,174,409	1,161,765	12,644
Employment service program	2,293,333	2,293,333	2,003,129	290,204
CSA administration	302,924	302,924	294,241	8,683
Fuel assistance	35,750	35,750	30,855	4,895
Homeless family services	253,356	253,356	256,976	(3,620)
Cooperative extension	229,664	229,664	163,957	65,707
Total welfare	40,386,079	40,386,079	38,112,323	2,273,756
Total health and welfare	\$ 43,972,709	43,972,709	41,553,719	2,418,990

**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, 2011

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Parks, recreation and cultural:				
Parks and recreation:				
Administration	\$ 5,695,538	5,695,538	5,171,904	523,634
Recreation division	2,794,495	2,794,495	2,696,385	98,110
Parks division	3,395,239	3,395,239	3,833,730	(438,491)
Recreation classes	4,865,510	4,865,510	4,388,502	477,008
Golf course	1,697,000	1,697,000	1,709,637	(12,637)
Leeward Marina	231,941	231,941	215,445	16,496
Festival support	158,520	158,520	195,747	(37,227)
Tourism, promotion and development	1,215,000	1,215,000	1,402,536	(187,536)
Animal services	1,048,183	1,048,183	1,059,191	(11,008)
Total parks and recreation	21,101,426	21,101,426	20,673,077	428,349
Cultural enrichment – Museum	1,129,000	1,129,000	1,092,763	36,237
Library	4,953,148	4,953,148	4,902,555	50,593
Total parks, recreation and cultural	27,183,574	27,183,574	26,668,395	515,179
Community development -				
Planning and community development:				
Development	1,249,345	1,249,345	1,209,562	39,783
Planning	1,157,701	1,157,701	1,109,060	48,641
Economic development	2,772,179	2,772,179	2,728,544	43,635
Total community development	5,179,225	5,179,225	5,047,166	132,059
Education -				
General fund transfer to Public Schools	109,200,000	109,200,000	109,200,000	-
Capital projects transfer to Public Schools	1,000,000	1,000,000	1,000,000	-
Total educations	110,200,000	110,200,000	110,200,000	-
Transfers to other funds:				
Debt service	35,418,026	35,418,026	37,418,026	(2,000,000)
Capital projects	2,394,246	18,294,246	24,794,000	(6,499,754)
Other	3,673,416	3,673,416	3,133,990	539,426
Total transfers to other funds	41,485,688	57,385,688	65,346,016	(7,960,328)
Total expenditures and transfers to other funds	\$ 406,430,818	423,016,832	424,683,162	(1,666,330)
Excess (deficiency) of revenues over (under) expenditures	-	(16,550,000)	(10,777,427)	5,772,573
Less encumbrances outstanding at June 30, 2010 expended or canceled at June 30, 2011			(5,413,927)	
Add encumbrances outstanding at June 30, 2011			2,923,582	
FY 2011 (deficit)			(13,267,772)	
Fund balance at beginning of year			103,672,634	
Fund balance at end of year			\$ 90,404,862	

See accompanying notes to required supplementary information

**CITY OF NEWPORT NEWS, VIRGINIA**  
Required Supplementary Information  
Schedule of Funding Progress (unaudited)  
Year ended June 30, 2011

**Newport News Employee Retirement Fund (in millions):**

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2011	\$ 641	1,145	(504)	56%	\$ 262	-192.4%
June 30, 2010	638	1,110	(472)	57%	283	-166.8%
June 30, 2009	711	1,115	(404)	64%	314	-128.7%
June 30, 2008	772	1,030	(258)	75%	314	-82.2%
June 30, 2007	746	954	(208)	78%	305	-68.2%
June 30, 2006	682	894	(212)	76%	298	-71.1%

**\*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, 2011	City	\$ 14	232	(218)	6%	\$ 119	-183.7%
June 30, 2010*	City	\$ 10	237	(227)	4%	\$ 125	-181.7%
June 30, 2009*	City	\$ 6	215	(209)	3%	\$ 136	-153.8%
June 30, 2009	NNSS	3	180	(177)	2%	184	-96.2%
	Total	9	395	(386)	2%	320	-120.6%
June 30, 2008*	City	\$ 9	194	(185)	5%	\$ 133	-138.4%
June 30, 2008	NNSS	3	194	(191)	2%	180	-106.1%
	Total	12	388	(376)	3%	313	-120.1%

\*2010, 2009 and 2008 restated due to incorrect reported numbers

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

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2010	\$ 4,545	5,397	(852)	84%	\$ 2,319	-36.7%
June 30, 2009	4,410	4,933	(523)	89%	2,095	-25.0%
June 30, 2008	4,126	4,663	(537)	88%	2,022	-26.6%
June 30, 2007	3,721	4,260	(539)	87%	2,112	-25.5%

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

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

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

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

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
06/30/2010	\$ 79	16	63	494%	\$ 983	-6.4%

\*Plan started July 1, 2009. June 30, 2010 is the only actuarial valuation done thus far.

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

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
06/30/2011	\$ 7	78	(71)	9%	\$ 147	-48.3%
06/30/2010	3	133	(130)	2%	181	-71.8%

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

**CITY OF NEWPORT NEWS, VIRGINIA**  
Required Supplementary Information  
Employees' Retirement Fund  
Schedule of Employer Contributions (Unaudited)  
(in millions)  
Year ended June 30, 2011

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

<b>Fiscal year end</b>	<b>Annual required contribution</b>	<b>Actual contribution</b>	<b>Percentage contributed</b>
2011	\$ 56.7	\$ 27.4	48%
2010	41.0	21.2	52%
2009	40.5	19.7	49%
2008 **	38.0	16.4	43%
2007	51.1	23.3	46%
2006	42.2	19.2	45%
2005	35.5	13.6	38%
2004	27.9	12.3	44%
2003	15.9	11.7	73%
2002	11.3	11.3	100%
2001	10.6	10.6	100%
2000	11.1	11.1	100%

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

<b>Fiscal year end</b>		<b>Annual required contribution</b>	<b>Actual contribution</b>	<b>Percentage contributed</b>
2011	City	\$ 18.3	\$ 11.8	64%
	Total	\$ 18.3	\$ 11.8	64%
2010	City	\$ 13.4	\$ 12.1	90%
	Total	\$ 13.4	\$ 12.1	90%
2009	City	\$ 12.5	\$ 9.2	74%
	NNSS	14.9	3.2	21%
	Total	\$ 27.4	\$ 12.4	45%
2008 **	City	\$ 11.7	\$ 6.9	59%
	NNSS	18.2	3.1	17%
	Total	\$ 29.9	\$ 10.0	33%

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

See accompanying notes to required supplementary information.

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

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

Year ended June 30, 2011

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

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

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

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

The City may amend the budget or make transfers between functions and budgetary line items without City Council approval. However, the City may not make transfers or expend any sum of money in excess of City Council appropriations, at the fund level, without the consent of the City Council. The legal level of budgetary control for the General Fund is the fund level; however, management control is exercised over the budget at the budgetary line item level. Appropriations, except for encumbrances and committed or assigned fund balances, lapse at year-end. Encumbrances and committed or assigned fund balances outstanding at year-end are reappropriated in the succeeding year. There were supplemental appropriations made during 2011 for the following reasons: (1) grant matching, (2) funding to meet the increase in operating expenses, (3) capital improvements not included in the Capital Improvements Plan, and (4) increases in school funding.

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

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

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



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

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

Year ended June 30, 2010

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

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

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

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

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**CITY OF NEWPORT NEWS, VIRGINIA**

Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2011

	Special Revenue						
Assets	Community development	Street maintenance	Economic development	Law library	Stormwater	Solid waste	Wastewater
Cash and cash equivalents	\$ -	-	1,502,927	146,012	4,149,040	1,715,920	1,866,934
Accounts receivable, net	-	-	-	11,574	385,577	1,188,458	(385,935)
Receivable from other governments:							
State	56,839	-	-	-	-	-	-
Federal	-	-	-	-	-	-	-
Advances to other funds	-	-	-	-	-	-	-
Total assets	\$ 56,839	-	1,502,927	157,586	4,534,617	2,904,378	1,480,999
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	\$ 3,380	-	13,743	3,109	47,836	369,267	334,300
Accrued liabilities	-	-	-	830	57,448	98,135	75,798
Deferred revenue	-	-	-	-	294,855	17,867	-
Advances from other funds	-	-	-	-	-	-	-
Advances from major governmental funds	53,459	-	-	-	-	-	-
Total liabilities	56,839	-	13,743	3,939	400,139	485,269	410,098
Fund balances:							
Nonspendable	-	-	-	-	-	-	-
Restricted	-	-	-	25	4,134,478	2,419,109	1,070,901
Committed	-	-	1,489,184	153,622	-	-	-
Assigned	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-
Total fund balances	-	-	1,489,184	153,647	4,134,478	2,419,109	1,070,901
Total liabilities and fund balances	\$ 56,839	-	1,502,927	157,586	4,534,617	2,904,378	1,480,999

(continued)

**CITY OF NEWPORT NEWS, VIRGINIA**

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2011

Assets	Special Revenue			Capital Projects		Total nonmajor
	Comprehensive Services Act	Criminal Justice Academy	Other federal and state	General capital improvements	Other federal and state	
Cash and cash equivalents	\$ 3,665,673	99,545	867	26,647,453	161,604	39,955,975
Accounts receivable, net	-	11,029	-	-	-	1,210,703
Receivable from other governments:						
State	-	-	226,990	144,606	492,189	920,624
Federal	-	-	3,581,993	85,000	74,999	3,741,992
Advances to other funds	-	-	-	6,448,431	-	6,448,431
Total assets	<u>\$ 3,665,673</u>	<u>110,574</u>	<u>3,809,850</u>	<u>33,325,490</u>	<u>728,792</u>	<u>52,277,725</u>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable	\$ 937,021	-	461,219	303,186	272,308	2,745,369
Accrued liabilities	-	-	14,739	53,410	-	300,360
Deferred revenue	-	-	-	-	-	312,722
Advances from other funds	-	-	-	-	-	-
Advances from major governmental funds	-	-	749,087	-	-	802,546
Total liabilities	<u>\$ 937,021</u>	<u>-</u>	<u>1,225,045</u>	<u>356,596</u>	<u>272,308</u>	<u>4,160,997</u>
Fund balances:						
Nonspendable	-	-	-	-	-	-
Restricted	-	-	2,584,805	-	456,484	10,665,802
Committed	2,728,652	110,574	-	32,968,894	-	37,450,926
Assigned	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-
Total fund balances	<u>\$ 2,728,652</u>	<u>110,574</u>	<u>2,584,805</u>	<u>32,968,894</u>	<u>456,484</u>	<u>48,116,728</u>
Total liabilities and fund balances	<u>\$ 3,665,673</u>	<u>110,574</u>	<u>3,809,850</u>	<u>33,325,490</u>	<u>728,792</u>	<u>52,277,725</u>

**CITY OF NEWPORT NEWS, VIRGINIA**  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
Year ended June 30, 2011

	Special Revenue						
	Community development	Street maintenance	Economic development	Law library	Stormwater	Solid waste	Wastewater
Revenues:							
Intergovernmental:							
State	\$ -	14,074,352	-	-	-	23,858	-
Federal	2,659,477	-	-	-	-	-	-
Charges for services	-	-	-	138,418	9,468,786	11,496,067	15,191,676
Interest and rents	-	-	66,472	-	22,888	3,967	7,745
Sale of property	-	-	56,500	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-
Total revenues	\$ 2,659,477	14,074,352	122,972	138,418	9,491,674	11,523,892	15,199,421
Expenditures:							
Current operating:							
General government	-	-	-	126,059	-	-	-
Public safety	-	-	-	-	-	-	-
Public works	-	14,074,352	-	-	7,580,566	10,125,250	12,890,737
Health and welfare	-	-	-	-	-	-	-
Education	-	-	-	-	-	-	-
Parks, recreation, and culture	-	-	-	-	-	-	-
Community development	2,659,477	-	129,853	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Total expenditures	\$ 2,659,477	14,074,352	129,853	126,059	7,580,566	10,125,250	12,890,737
Excess (deficiency) of revenues over (under) expenditures	-	-	(6,881)	12,359	1,911,108	1,398,642	2,308,684
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	(2,348,253)	(1,424,027)	(4,766,251)
Total other financing sources (uses)	\$ -	-	-	-	(2,348,253)	(1,424,027)	(4,766,251)
Net changes in fund balances	-	-	(6,881)	12,359	(437,145)	(25,385)	(2,457,567)
Fund balances at June 30, 2010	-	-	1,496,065	141,288	4,571,623	2,444,494	3,528,468
Fund balances at June 30, 2011	\$ -	-	1,489,184	153,647	4,134,478	2,419,109	1,070,901

(continued)

**CITY OF NEWPORT NEWS, VIRGINIA**

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

Year ended June 30, 2011

	<b>Special Revenue</b>			<b>Capital Projects</b>		
	<b>Comprehensive Services Act</b>	<b>Criminal Justice Academy</b>	<b>Other federal and state</b>	<b>General capital improvements</b>	<b>Other federal and state</b>	<b>Total nonmajor</b>
Revenues:						
Intergovernmental:						
Local	\$ -	-	156,731	299,519	51,524	507,774
State	4,636,172	-	1,560,076	337,768	832,003	21,464,229
Federal	-	-	7,726,031	161,308	101,839	10,648,655
Charges for services	-	110,574	-	-	-	36,405,521
Interest and rents	-	-	2,435	28,266	-	131,773
Sale of Property	-	-	-	-	-	56,500
Miscellaneous	-	-	-	-	-	-
Total revenues	<u>4,636,172</u>	<u>110,574</u>	<u>9,445,273</u>	<u>826,861</u>	<u>985,366</u>	<u>69,214,452</u>
Expenditures:						
Current operating:						
General government	-	-	-	-	-	126,059
Public safety	-	-	5,842,151	-	-	5,842,151
Public works	-	-	3,252,287	-	-	47,923,192
Health and welfare	7,209,387	-	169,787	-	-	7,379,174
Education	-	-	-	1,000,000	-	1,000,000
Parks, recreation, and culture	-	-	109,327	-	-	109,327
Community development	-	-	-	3,000,000	-	5,789,330
Capital outlay	-	-	-	4,521,000	968,300	5,489,300
Total expenditures	<u>7,209,387</u>	<u>-</u>	<u>9,373,552</u>	<u>8,521,000</u>	<u>968,300</u>	<u>73,658,533</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,573,215)</u>	<u>110,574</u>	<u>71,721</u>	<u>(7,694,139)</u>	<u>17,066</u>	<u>(4,444,081)</u>
Other financing sources (uses):						
Transfers in	2,702,878	-	-	28,529,117	-	31,231,995
Transfers out	-	-	-	(2,350,000)	-	(10,888,531)
Total other financing sources (uses)	<u>2,702,878</u>	<u>-</u>	<u>-</u>	<u>26,179,117</u>	<u>-</u>	<u>20,343,464</u>
Net changes in fund balances	<u>129,663</u>	<u>110,574</u>	<u>71,721</u>	<u>18,484,978</u>	<u>17,066</u>	<u>15,899,383</u>
Fund balances at June 30, 2010	<u>2,598,989</u>	<u>-</u>	<u>2,513,084</u>	<u>14,483,916</u>	<u>439,418</u>	<u>32,217,345</u>
Fund balances at June 30, 2011	<u>\$ 2,728,652</u>	<u>110,574</u>	<u>2,584,805</u>	<u>32,968,894</u>	<u>456,484</u>	<u>48,116,728</u>

**CITY OF NEWPORT NEWS, VIRGINIA**  
Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual (Non-GAAP Basis)  
Special Revenue Funds  
Year ended June 30, 2011

	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:																
State	13,573,702	14,074,352	14,074,352	—	—	—	—	—	—	—	—	—	—	—	—	—
Charges for services	—	—	—	—	—	—	—	—	144,200	144,200	138,418	(5,782)	12,028,124	12,517,882	9,468,786	(3,049,096)
Sale of property	—	—	—	—	20,000	20,000	56,500	36,500	—	—	—	—	—	—	—	—
Interest and rents	—	—	—	—	129,982	129,982	66,472	(63,510)	—	—	—	—	25,000	25,000	22,888	(2,112)
Miscellaneous	—	—	—	—	18	18	—	(18)	—	—	—	—	—	—	—	—
Total revenues	\$ 13,573,702	14,074,352	14,074,352	—	150,000	150,000	122,972	(27,028)	144,200	144,200	138,418	(5,782)	12,053,124	12,542,882	9,491,674	(3,051,208)
Expenditures:																
Current:																
General government	—	—	—	—	—	—	—	—	144,200	144,739	126,059	18,680	—	—	—	—
Public works	13,573,702	14,074,352	14,074,352	—	—	—	—	—	—	—	—	—	10,917,000	11,014,021	9,928,819	1,085,202
Community development	—	—	—	—	150,000	151,001	129,853	21,148	—	—	—	—	—	—	—	—
Total expenditures	\$ 13,573,702	14,074,352	14,074,352	—	150,000	151,001	129,853	21,148	144,200	144,739	126,059	18,680	10,917,000	11,014,021	9,928,819	1,085,202
Excess (deficiency) of revenues over expenditures	\$ —	—	—	—	—	(1,001)	(6,881)	(5,880)	—	(539)	12,359	12,898	1,136,124	1,528,861	(437,145)	(1,966,006)
Less encumbrances outstanding at June 30, 2010							(454)				—				(34,156)	
Add encumbrances outstanding at June 30, 2011							454				—				34,156	
Excess (deficiency) of revenues over expenditures - GAAP basis							(6,881)				12,359				(437,145)	
Fund balances at July 1, 2010							1,496,065				141,288				4,571,623	
Fund balances at June 30, 2011							<u>1,489,184</u>				<u>153,647</u>				<u>4,134,478</u>	

**CITY OF NEWPORT NEWS, VIRGINIA**  
Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual (Non-GAAP Basis)  
Special Revenue Funds  
Year ended June 30, 2011

	Solid Waste				Wastewater				Totals			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
Revenues:												
Intergovernmental:												
State	19,000	19,000	23,858	4,858	—	—	—	—	13,592,702	14,093,352	14,098,210	4,858
Charges for services	12,734,000	12,734,000	11,496,067	(1,237,933)	17,320,020	17,320,020	15,191,676	(2,128,344)	42,226,344	42,716,102	36,294,947	(6,421,155)
Sale of Property	—	—	—	—	—	—	—	—	20,000	20,000	56,500	36,500
Interest and rents	10,000	10,000	3,967	(6,033)	176,980	176,980	7,745	(169,235)	341,962	341,962	101,072	(240,890)
Miscellaneous	1,000	1,000	—	(1,000)	—	—	—	—	1,018	1,018	—	(1,018)
Total revenues	\$ 12,764,000	12,764,000	11,523,892	(1,240,108)	17,497,000	17,497,000	15,199,421	(2,297,579)	56,182,026	57,172,434	50,550,729	(6,621,705)
Expenditures:												
Current:												
General government	—	—	—	—	—	—	—	—	144,200	144,739	126,059	18,680
Public works	12,764,000	12,796,508	11,549,277	1,247,231	17,497,000	17,497,000	17,656,988	(159,988)	54,751,702	55,381,881	53,209,436	2,172,445
Community development	—	—	—	—	—	—	—	—	150,000	151,001	129,853	21,148
Total expenditures	\$ 12,764,000	12,796,508	11,549,277	1,247,231	17,497,000	17,497,000	17,656,988	(159,988)	55,045,902	55,677,621	53,465,348	2,212,273
Excess (deficiency) of revenues over expenditures	\$ —	(32,508)	(25,385)	7,123	—	—	(2,457,567)	(2,457,567)	1,136,124	1,494,813	(2,914,619)	(4,409,432)
Less encumbrances outstanding at June 30, 2010			(7,865)				1,322,507				1,280,032	
Add encumbrances outstanding at June 30, 2011			7,865				(1,322,507)				(1,280,032)	
Excess (deficiency) of revenues over expenditures - GAAP basis			(25,385)				(2,457,567)				(2,914,619)	
Fund balances at June 30, 2010			2,444,494				3,528,468				12,181,938	
Fund balances at June 30, 2011			2,419,109				1,070,901				9,267,319	



**CITY OF NEWPORT NEWS, VIRGINIA**  
Debt Service Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual (Non-GAAP Basis)  
Year ended June 30, 2011

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
Revenues:				
Intergovernmental - Local	\$ 14,149,573	14,149,573	14,149,573	—
Miscellaneous	-	-	28,164	28,164
Total revenues	<u>\$ 14,149,573</u>	<u>14,149,573</u>	<u>14,177,737</u>	<u>28,164</u>
Expenditures:				
General government	541,625	541,625	541,625	—
Debt service payments	<u>57,391,010</u>	<u>57,391,010</u>	<u>61,233,118</u>	<u>(3,842,108)</u>
Total expenditures	<u>\$ 57,932,635</u>	<u>57,932,635</u>	<u>61,774,743</u>	<u>(3,842,108)</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (43,783,062)</u>	<u>(43,783,062)</u>	<u>(47,597,006)</u>	<u>(3,813,944)</u>
Transfers in			45,456,557	
Transfers out			<u>—</u>	
Net changes in fund balances			(2,140,449)	
Fund balances at June 30, 2010			<u>6,511,346</u>	
Fund balances at June 30, 2011			<u><u>4,370,897</u></u>	

**CITY OF NEWPORT NEWS, VIRGINIA**  
Combining Statement of Changes in Assets and Liabilities  
Agency Funds  
Year Ended June 30, 2011

<b>GPWDC</b>	<b>Balance June 30, 2010</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2011</b>
Assets:				
Cash and cash equivalents	\$ 165,356	2,712,533	2,700,128	177,761
Accounts receivable	396,686	122,855	264,730	254,811
Total assets	\$ 562,042	2,835,388	2,964,858	432,572
Liabilities:				
Accounts payable	\$ 142,009	2,029,697	2,089,658	82,048
Due to other agencies	420,033	36,663	106,172	350,524
Total assets	\$ 562,042	2,066,360	2,195,830	432,572
 <b>Other Agency Funds</b>				
Assets:				
Cash and cash equivalents	\$ 4,067,202	18,475,114	18,542,211	4,000,105
Accounts receivable	3,388,960	19,259,398	19,176,097	3,472,261
Inventory	2,777	—	1,248	1,529
Total assets	\$ 7,458,939	37,734,512	37,719,556	7,473,895
Liabilities:				
Accounts payable	\$ 1,159,298	17,906,985	19,027,442	38,841
Due to other governments	4,022,794	1,195,542	—	5,218,336
Due to other agencies	2,276,847	173,933	234,062	2,216,718
Total liabilities	\$ 7,458,939	19,276,460	19,261,504	7,473,895
 <b>Total - Agency Funds</b>				
Assets:				
Cash and cash equivalents	\$ 4,232,558	21,187,647	21,242,339	4,177,866
Accounts receivable	3,785,646	19,382,253	19,440,827	3,727,072
Inventory	2,777	—	1,248	1,529
Total assets	\$ 8,020,981	40,569,900	40,684,414	7,906,467
Liabilities:				
Accounts payable	\$ 1,301,307	19,936,682	21,117,100	120,889
Due to other governments	4,022,794	1,195,542	—	5,218,336
Due to other agencies	2,696,880	210,596	340,234	2,567,242
Total liabilities	\$ 8,020,981	21,342,820	21,457,334	7,906,467

Beginning balance for accounts payable Agency Funds was restated by \$1

**CITY OF NEWPORT NEWS, VIRGINIA**  
Combining Statement of Net Assets  
Non-Major Component Units  
June 30, 2011

Assets	Peninsula Airport Commission	Economic and Industrial Development Authorities	Totals
Current Assets:			
Cash and cash equivalents	\$ 4,866,621	8,053,969	12,920,590
Certificates of deposits	1,513,398	-	1,513,398
Restricted cash and investments	-	16,319,394	16,319,394
Receivables:			
Accounts	571,861	85,534	657,395
Loans	840,415	-	840,415
Mortgages	-	182,520	182,520
Primary government Commonwealth of Virginia	310,000	-	310,000
-	-	-	-
Net investment in direct financing leases	-	976,811	976,811
Inventories	102,019	-	102,019
Other current assets	9,555	775,970	785,525
Total current assets	8,213,869	26,394,198	34,608,067
Restricted cash and investments	2,693,718	194,190	2,887,908
Receivables:			
Loans	-	359,592	359,592
Mortgages	-	198,461	198,461
Notes	-	3,037,590	3,037,590
Primary government	3,740,000	-	3,740,000
Land held for lease or resale	-	19,733,571	19,733,571
Net investment in direct financing leases	-	3,827,119	3,827,119
Other noncurrent assets	133,332	846,950	980,282
Property, plant and equipment:			
Land	6,604,658	-	6,604,658
Construction in progress	4,032,145	5,383,982	9,416,127
Infrastructure	-	2,543,500	2,543,500
Buildings	-	184,641,733	184,641,733
Improvements	-	13,961,916	13,961,916
Airfield	75,185,012	-	75,185,012
Terminal	61,767,735	-	61,767,735
Trailer park and rental units	1,852,612	-	1,852,612
Machinery and equipment	2,596,547	84,674	2,681,221
Accumulated depreciation	(53,105,433)	(35,852,360)	(88,957,793)
Total assets	113,714,195	225,355,116	339,069,311
Deferred swap outflow	-	5,508,287	5,508,287
Total assets and deferrals	\$ 113,714,195	230,863,403	344,577,598
<b>Liabilities</b>			
Current Liabilities			
Accounts payable	\$ 414,662	910,687	1,325,349
Accrued liabilities	496,072	302,404	798,476
Deposits/deferred revenue	442,955	206,317	649,272
Due to primary government	-	962,631	962,631
Bonds payable - due within one year	657,027	8,294,418	8,951,445
Total current liabilities	2,010,716	10,676,457	12,687,173
Due to primary government	-	13,689,531	13,689,531
Note payable	-	3,896,647	3,896,647
Due to Newport News Public Schools	-	61,938	61,938
Bonds payable	14,677,973	120,793,756	135,471,729
Other post-retirement employee benefits (OPEB) liability	2,402,293	-	2,402,293
Total liabilities	19,090,982	149,118,329	168,209,311
<b>Net Assets</b>			
Invested in capital assets, net of related debt	83,598,276	58,311,598	141,909,874
Restricted for:			
Capital projects	2,693,718	11,682,643	14,376,361
Capital loans	-	1,393,568	1,393,568
Unrestricted	8,331,219	10,357,265	18,688,484
Total net assets	94,623,213	81,745,074	176,368,287
Total liabilities and net assets	\$ 113,714,195	230,863,403	344,577,598

**CITY OF NEWPORT NEWS, VIRGINIA**  
Combining Statement of Revenues, Expenses and Changes in Net Assets  
Non-Major Component Units  
Year ended June 30, 2011

	<b>Peninsula Airport Commission</b>	<b>Economic and Industrial Development Authorities</b>	<b>Totals</b>
Operating revenues:			
Charges for services	\$ 9,735,233	—	9,735,233
Property rentals	—	10,355,816	10,355,816
Parking contributions	—	135,333	135,333
Land sales	—	880,978	880,978
Intergovernmental-PAC	—	151,251	151,251
Intergovernmental-Parking Authority	—	377,689	377,689
Intergovernmental-primary government	—	17,475,088	17,475,088
Total operating revenues	<u>9,735,233</u>	<u>29,376,155</u>	<u>39,111,388</u>
Operating expenses:			
Cost of land sold	—	4,032	4,032
Personal services	4,379,740	554,765	4,934,505
Contractual services	2,244,500	4,499,741	6,744,241
Materials and supplies	907,991	488,068	1,396,059
Depreciation and amortization	5,716,863	4,302,203	10,019,066
Real estate commissions	—	5,835	5,835
Rental expenses	—	913,374	913,374
Miscellaneous	151,326	396,639	547,965
Total operating expenses	<u>13,400,420</u>	<u>11,164,657</u>	<u>24,565,077</u>
Operating income (loss)	<u>(3,665,187)</u>	<u>18,211,498</u>	<u>14,546,311</u>
Nonoperating revenues (expenses):			
Interest revenue	269,341	210,390	479,731
Bond and admin fee income	—	203,361	203,361
Interest expense	(766,745)	(6,378,632)	(7,145,377)
Letter of credit and trustee fees	—	(333,407)	(333,407)
Amortization - bond costs	(12,318)	—	(12,318)
Other revenues (expenses)	(405,141)	588,605	183,464
OPEB expense	(546,927)	—	(546,927)
Nonoperating expenses, net	<u>(1,461,790)</u>	<u>(5,709,683)</u>	<u>(7,171,473)</u>
Capital contributions, net	<u>7,038,062</u>	<u>—</u>	<u>7,038,062</u>
Change in net assets	<u>1,911,085</u>	<u>12,501,815</u>	<u>14,412,900</u>
Net assets at June 30, 2010	<u>92,712,128</u>	<u>69,243,259</u>	<u>161,955,387</u>
Net assets at June 30, 2011	<u>\$ 94,623,213</u>	<u>81,745,074</u>	<u>176,368,287</u>

**CITY OF NEWPORT NEWS, VIRGINIA**

Statement of Cash Flows  
Non-Major Component Units  
Year ended June 30, 2011

	<b>Peninsula Airport Commission</b>	<b>Economic and Industrial Development Authorities</b>	<b>Totals</b>
Cash flows from operating activities:			
Receipts from customers	\$ 9,879,743	29,083,185	38,962,928
Receipts from land sales and new loans, net of settlement charges	-	2,862	2,862
Land Purchases	-	-	-
Payments to suppliers	(3,743,786)	(6,563,598)	(10,307,384)
Payments to employees	(4,379,740)	(554,765)	(4,934,505)
Net cash provided by operating activities	<u>1,756,217</u>	<u>21,967,684</u>	<u>23,723,901</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(2,937,812)	(4,133,448)	(7,071,260)
Capital contributions, net	7,043,859	-	7,043,859
Repayment and retirement of industrial revenue bonds and notes payable	(623,159)	(17,326,258)	(17,949,417)
Payment from Newport News Public Schools	-	28,127	28,127
Proceeds from primary government	290,000	553,757	843,757
Proceeds from Hornsby	-	-	-
Payment to primary government	-	(923,076)	(923,076)
Interest paid	(766,745)	(6,432,048)	(7,198,793)
Other revenue (expenses), net	(213)	458,559	458,346
Net cash used in capital and related financing activities	<u>3,005,930</u>	<u>(27,774,387)</u>	<u>(24,768,457)</u>
Cash flows from investing activities:			
Net investment in direct financing leases	-	6,002,887	6,002,887
Investments in certificates of deposits	(1,513,398)	-	-
Interest received	276,319	209,616	485,935
Increase in restricted investments, net	(1,731,347)	-	(1,731,347)
Net cash provided by investing activities	<u>(2,968,426)</u>	<u>6,212,503</u>	<u>4,757,475</u>
Increase (decrease) in cash and cash equivalents at beginning of year	1,793,721	405,800	3,712,919
Cash, cash equivalents and restricted cash at beginning of year	<u>3,072,900</u>	<u>24,160,584</u>	<u>27,233,484</u>
Cash, cash equivalents and restricted cash at end of year	\$ <u>4,866,621</u>	<u>24,566,384</u>	<u>30,946,403</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (3,665,187)	18,211,498	14,546,311
Adjustment to reconcile operating income to cash provided by operating activities:			
Depreciation	5,716,863	4,194,254	9,911,117
OPEB expense paid	(61,885)	-	(61,885)
Write-off of construction in progress	-	432,285	432,285
Land valuation reduction	-	-	-
Changes in assets and liabilities:			
Changes in land inventory	-	(1,165,647)	(1,165,647)
Mortgages receivable	-	107,862	107,862
Other receivables	53,226	(337,288)	(284,062)
Inventories	(14,232)	-	(14,232)
Other assets (expenses), net	198,123	-	198,123
Accounts payable and accrued liabilities	207,314	585,402	792,716
Deferred revenue	(678,005)	(60,682)	(738,687)
Net cash provided by operating activities	\$ <u>1,756,217</u>	<u>21,967,684</u>	<u>23,723,901</u>
Supplemental disclosure:			
Noncash capital activities:			
Payment by State on VASCIC bonds	\$ —	5,150,000	5,150,000
Noncash investing and financing activities:			
Construction costs financed by accounts payable	\$ -	-	-
Contributed capital funded by accounts receivable	728,576	-	728,576

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**CITY OF NEWPORT NEWS, VIRGINIA**  
**Trust Funds**  
**Combining Statement of Fiduciary Net Assets**  
**June 30, 2011**

<b>Assets</b>	<b>Retirement</b>	<b>OPEB</b>	<b>Total</b>
Cash and cash equivalents	\$ 2,197,352	\$ 3,733,350	\$ 5,930,702
Cash and cash equivalents with trustee	32,872,687	174,761	33,047,448
Investments, at market value			
Corporate and government bonds	159,197,131	-	159,197,131
Common stock	332,397,547	5,919,716	338,317,263
International stock	92,228,350	-	92,228,350
International emerging markets	40,453,549	4,200,054	44,653,603
Real estate	69,901,324	-	69,901,324
Accounts receivable	4,161,810	2,195,258	6,357,068
Interest receivable	959,009	-	959,009
Dividend receivable	58,140	2,489	60,629
Sales receivable	2,430,836	61,602	2,492,438
Total assets	<u>\$ 736,857,735</u>	<u>\$ 16,287,230</u>	<u>\$ 753,144,965</u>
<b>Liabilities</b>			
Accounts payable	\$ 64,199	\$ 2,124,483	\$ 2,188,682
Accrued vacation	28,976	-	28,976
Purchases payable	3,961,895	27,634	3,989,529
Total liabilities	<u>4,055,070</u>	<u>2,152,117</u>	<u>6,207,187</u>
<b>Net Assets</b>			
Assets held in trust:			
Postemployment healthcare benefits	-	14,135,113	14,135,113
Employees' retirement	732,802,665	-	732,802,665
Total net assets	<u>732,802,665</u>	<u>14,135,113</u>	<u>746,937,778</u>
Total liabilities and net assets	<u>\$ 736,857,735</u>	<u>\$ 16,287,230</u>	<u>\$ 753,144,965</u>

See accompanying notes to basic financial statements

**CITY OF NEWPORT NEWS, VIRGINIA**  
**Trust Funds**  
**Combining Statement of Fiduciary Net Assets**  
**Year ended June 30, 2011**

	<u>Retirement</u>	<u>OPEB</u>	<u>Total</u>
Additions (decreases):			
Employer Contributions:			
City General Fund	\$ 19,173,375	\$ 8,773,090	\$ 27,946,465
City Contribution - General Fund	2,013,744	2,100,000	4,113,744
Waterworks Fund	2,214,613	957,453	3,172,066
School Operating Fund	3,996,867	-	3,996,867
Other Contributions:			
Income from Leave Exchange	171,916	-	171,916
Employee Buy-back	369,963	-	369,963
Total contributions	<u>27,940,478</u>	<u>11,830,543</u>	<u>39,771,021</u>
Investment income:			
Net appreciation - bonds	5,591,865	-	5,591,865
Net appreciation - stocks	101,731,754	1,546,829	103,278,583
Interest	6,703,210	12,205	6,715,415
Dividends	14,578,680	92,873	14,671,553
Real estate operating loss, net	7,058,110	-	7,058,110
Commission recapture	69,843	-	69,843
Other investment income	-	2,300	2,300
Total investment loss	<u>135,733,462</u>	<u>1,654,207</u>	<u>137,387,669</u>
Less investment expenses:			
Other investment expenses	(4,051,982)	(63,200)	(4,115,182)
Net investment gain/(loss)	<u>131,681,480</u>	<u>1,591,007</u>	<u>133,272,487</u>
Total increase/(decrease)	<u>159,621,958</u>	<u>13,421,550</u>	<u>173,043,508</u>
Deductions:			
Benefits:			
Service	53,286,360	-	53,286,360
Occupational death	68,882	-	68,882
Nonoccupational death	22,000	-	22,000
Occupational disability	251,543	-	251,543
Nonoccupational disability	682,192	-	682,192
Reversionary annuity	2,963,764	-	2,963,764
Portability transfer	211,659	-	211,659
Retirees insurance benefits	-	9,635,343	9,635,343
Total benefits	<u>57,486,400</u>	<u>9,635,343</u>	<u>67,121,743</u>
Administrative expenses:			
Personal services	499,513	-	499,513
Board fees	11,140	-	11,140
Consultant fees	150,000	15,000	165,000
Actuary fees	37,090	12,000	49,090
Audit fees	13,630	5,000	18,630
Medical disability exam fees	3,225	-	3,225
Total administrative expenses	<u>714,598</u>	<u>32,000</u>	<u>746,598</u>
Total deductions	<u>58,200,998</u>	<u>9,667,343</u>	<u>67,868,341</u>
Net increase	<u>101,420,960</u>	<u>3,754,207</u>	<u>105,175,167</u>
Net assets held in trust for pension benefits at June 30, 2010	631,381,705	10,380,906	641,762,611
Net assets held in trust for pension benefits at June 30, 2011	<u>\$ 732,802,665</u>	<u>\$ 14,135,113</u>	<u>\$ 746,937,778</u>



# STATISTICAL SECTION

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

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

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

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

	Fiscal Year									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Governmental activities										
Invested in capital assets, net of related debt	\$ 290,455,293	\$ 251,724,446	\$ 228,275,222	\$ 223,305,188	\$ 190,926,170	\$ 175,306,479	\$ 162,580,785	\$ 126,254,500	\$ 124,001,270	\$ 143,341,486
Restricted	162,471	1,034,412	1,517,751	1,853,588	2,234,557	1,521,091	3,998,951	34,052,310	28,883,536	27,651,803
Unrestricted	(103,136,587)	(59,047,595)	(46,605,508)	(37,333,216)	(3,441,801)	14,603,368	30,067,425	35,374,896	43,581,266	24,243,772
Total governmental activities net assets	\$ 187,481,177	\$ 193,711,263	\$ 183,187,465	\$ 187,825,560	\$ 189,718,926	\$ 191,430,938	\$ 196,647,161	\$ 195,681,706	\$ 196,466,072	\$ 195,237,061
Business-type activities										
Invested in capital assets, net of related debt	\$ 251,759,910	\$ 238,441,047	\$ 276,666,222	\$ 277,770,877	\$ 269,150,510	\$ 264,939,418	\$ 249,491,400	\$ 224,842,179	\$ 204,642,226	\$ 195,401,562
Restricted	-	-	-	-	-	225,000	225,000	16,963,485	23,401,614	18,903,706
Unrestricted	23,521,844	31,828,423	41,643,472	29,287,711	24,572,102	18,150,853	16,912,260	10,242,607	9,443,893	11,949,775
Total business-type activities net assets *	\$ 275,281,754	\$ 270,269,470	\$ 318,309,694	\$ 307,058,588	\$ 293,722,612	\$ 283,315,271	\$ 266,628,660	\$ 252,048,271	\$ 237,487,733	\$ 226,255,043
Primary government										
Invested in capital assets, net of related debt	\$ 542,215,203	\$ 490,165,493	\$ 504,941,444	\$ 501,076,065	\$ 460,076,680	\$ 440,245,897	\$ 412,072,185	\$ 351,096,679	\$ 328,643,496	\$ 338,743,048
Restricted	162,471	1,034,412	1,517,751	1,853,588	2,234,557	1,746,091	4,223,951	51,015,795	52,285,150	46,555,509
Unrestricted (deficit)	(79,614,743)	(27,219,172)	(4,962,036)	(8,045,505)	21,130,301	32,754,221	46,979,685	45,617,503	53,025,159	36,193,547
Total primary government net assets	\$ 462,762,931	\$ 463,980,733	\$ 501,497,159	\$ 494,884,148	\$ 483,441,538	\$ 474,746,209	\$ 463,275,821	\$ 447,729,977	\$ 433,953,805	\$ 421,492,104

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

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

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

	Fiscal Year									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
<b>Program revenues</b>										
<b>Governmental activities:</b>										
Charges for services:										
Public works	\$ 36,800,694	\$ 37,744,481	\$ 34,526,097	\$ 30,513,564	\$ 28,057,816	\$ 26,160,999	\$ 23,453,616	\$ 22,952,047	\$ 21,937,252	\$ 21,192,265
All others	25,854,740	25,805,742	26,406,149	25,760,135	25,941,895	24,758,610	24,671,063	22,932,430	21,339,768	20,110,042
Operating grants and contributions	44,986,270	42,704,554	44,966,813	45,835,149	44,078,633	43,861,201	59,841,991	49,539,479	47,548,988	44,083,309
Capital grants and contributions	3,156,118	4,740,959	1,962,681	2,140,343	2,771,153	2,970,950	11,326,181	13,693,887	985,347	1,914,845
<b>Total governmental activities program revenues</b>	<b>110,797,822</b>	<b>110,995,736</b>	<b>107,861,740</b>	<b>104,249,191</b>	<b>100,849,497</b>	<b>97,751,760</b>	<b>119,292,851</b>	<b>109,117,843</b>	<b>91,811,355</b>	<b>87,300,461</b>
<b>Business-type activities:</b>										
Charges for services	74,497,015	72,719,343	73,817,176	76,003,756	71,908,595	72,397,545	64,692,616	63,863,831	59,623,977	59,617,522
<b>Total business-type activities program revenues</b>	<b>74,497,015</b>	<b>72,719,343</b>	<b>73,817,176</b>	<b>76,003,756</b>	<b>71,908,595</b>	<b>72,397,545</b>	<b>64,692,616</b>	<b>63,863,831</b>	<b>59,623,977</b>	<b>59,617,522</b>
<b>Total primary government program revenues</b>	<b>185,294,837</b>	<b>183,715,079</b>	<b>181,678,916</b>	<b>180,252,947</b>	<b>172,758,092</b>	<b>170,149,305</b>	<b>183,985,467</b>	<b>172,981,674</b>	<b>151,435,332</b>	<b>146,917,983</b>
<b>Expenses</b>										
<b>Governmental activities:</b>										
General government	41,072,050	56,496,116	67,006,531	54,904,104	54,577,481	64,991,195	57,053,132	75,766,012	57,068,233	47,277,252
Judicial administration	7,675,395	7,061,964	7,042,239	7,269,926	6,919,927	6,397,049	6,060,839	5,283,193	4,848,126	5,420,075
Public safety	129,661,963	119,642,698	120,240,436	119,019,088	112,089,213	100,481,015	96,637,983	87,907,570	77,928,537	75,902,430
Public works	77,288,468	71,950,527	70,635,586	70,571,291	66,258,073	63,695,077	54,351,940	49,364,947	46,393,246	49,191,819
Health and welfare	54,114,507	52,805,082	56,468,567	58,563,411	56,061,131	53,362,500	53,692,902	51,593,737	47,748,437	43,764,515
Education	118,376,318	119,956,981	116,528,527	114,275,568	117,460,703	104,054,463	107,463,439	95,799,045	92,183,490	95,839,841
Parks, recreation and culture	34,385,246	32,614,571	34,409,781	36,183,209	32,557,355	29,934,662	27,059,823	26,372,043	24,866,503	22,913,528
Community development	12,678,704	10,369,291	8,832,458	10,623,457	8,700,790	11,168,279	10,455,402	6,568,809	7,169,887	7,456,287
Interest on long-term debt	30,258,101	23,923,629	25,487,370	24,118,788	21,149,858	17,169,976	19,109,084	19,083,650	18,458,814	19,441,810
<b>Total governmental activities expenses</b>	<b>505,510,752</b>	<b>494,820,859</b>	<b>506,651,495</b>	<b>495,528,842</b>	<b>475,774,531</b>	<b>451,254,216</b>	<b>431,884,544</b>	<b>417,739,006</b>	<b>376,665,273</b>	<b>367,207,557</b>
<b>Business-type activities:</b>										
Public utilities	63,397,723	64,078,572	62,684,897	59,439,084	54,357,032	51,394,362	46,037,659	45,060,323	44,748,056	41,670,241
Parking authority *	-	-	-	-	-	199,461	262,691	265,020	264,403	315,084
<b>Total business-type activities expenses</b>	<b>63,397,723</b>	<b>64,078,572</b>	<b>62,684,897</b>	<b>59,439,084</b>	<b>54,357,032</b>	<b>51,593,823</b>	<b>46,300,350</b>	<b>45,325,343</b>	<b>45,012,459</b>	<b>41,985,325</b>
<b>Total primary government expenses</b>	<b>568,908,475</b>	<b>558,899,431</b>	<b>569,336,392</b>	<b>554,967,926</b>	<b>530,131,563</b>	<b>502,848,039</b>	<b>478,184,894</b>	<b>463,064,349</b>	<b>421,677,732</b>	<b>409,192,882</b>
<b>Net Revenue/(Expenditures)</b>										
Governmental activities	(394,712,930)	(383,825,123)	(398,789,755)	(391,279,651)	(374,925,034)	(353,502,456)	(312,591,693)	(308,621,163)	(284,853,918)	(279,907,096)
Business-type activities	11,099,292	8,640,771	11,132,279	16,564,672	17,551,563	20,803,722	18,392,266	18,538,488	14,611,518	17,632,197
<b>Total primary government</b>	<b>(383,613,638)</b>	<b>(375,184,352)</b>	<b>(387,657,476)</b>	<b>(374,714,979)</b>	<b>(357,373,471)</b>	<b>(332,698,734)</b>	<b>(294,199,427)</b>	<b>(290,082,675)</b>	<b>(270,242,400)</b>	<b>(262,274,899)</b>
<b>General revenues and Other Changes in Net Assets</b>										
<b>Governmental activities:</b>										
Property taxes	230,980,102	236,993,370	233,735,214	219,867,771	207,827,846	187,912,894	172,575,384	159,841,724	154,600,404	145,591,688
Other taxes	89,063,340	88,595,948	89,624,744	93,161,528	90,412,582	89,170,125	83,396,354	80,131,054	74,799,019	68,401,249
Unrestricted grants and contributions	48,209,536	48,630,187	48,993,988	49,350,467	48,308,625	45,473,865	37,699,447	39,506,422	40,336,019	38,959,068
Investment earnings	2,395,569	2,663,324	3,596,647	6,169,470	6,465,913	5,007,664	3,116,612	4,211,328	3,014,372	3,763,911
Miscellaneous	7,834,297	7,466,092	8,201,067	10,837,049	11,087,567	11,587,686	8,013,660	5,713,465	4,399,115	7,127,513
Transfers	10,000,000	10,000,000	10,000,000	10,000,000	9,110,489	9,134,000	9,134,000	9,134,001	8,934,000	8,674,000
<b>Total governmental activities</b>	<b>388,482,844</b>	<b>394,348,921</b>	<b>394,151,660</b>	<b>389,386,285</b>	<b>373,213,022</b>	<b>348,286,234</b>	<b>313,935,457</b>	<b>298,537,994</b>	<b>286,082,929</b>	<b>272,517,429</b>
<b>Business-type activities:</b>										
Investment earnings	235,100	549,737	1,940,465	2,988,546	1,926,084	1,240,697	485,453	301,763	390,821	825,870
Miscellaneous	3,677,892	5,381,669	8,332,219	3,782,758	3,530,826	3,753,852	4,836,670	4,854,288	5,164,351	4,045,092
Extraordinary loss	-	(52,612,401)	-	-	-	-	-	-	-	-
Transfers	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)	(9,110,489)	(9,134,000)	(9,134,000)	(9,134,001)	(8,934,000)	(8,674,000)
<b>Total business-type activities</b>	<b>(6,087,008)</b>	<b>(56,680,995)</b>	<b>272,684</b>	<b>(3,228,696)</b>	<b>(3,653,579)</b>	<b>(4,139,451)</b>	<b>(3,811,877)</b>	<b>(3,977,950)</b>	<b>(3,378,828)</b>	<b>(3,803,038)</b>
<b>Total primary government</b>	<b>382,395,836</b>	<b>337,667,926</b>	<b>394,424,344</b>	<b>386,157,589</b>	<b>369,559,443</b>	<b>344,146,783</b>	<b>310,123,580</b>	<b>294,560,044</b>	<b>282,704,101</b>	<b>268,714,391</b>
<b>Changes in Net Assets</b>										
Governmental activities	(6,230,086)	10,523,798	(4,638,095)	(1,893,366)	(1,712,012)	(5,216,222)	1,343,764	(10,083,169)	1,229,011	(7,389,667)
Business-type activities	5,012,284	(48,040,224)	11,404,963	13,335,976	13,897,984	16,664,271	14,580,389	14,560,538	11,232,690	13,829,159
<b>Total primary government</b>	<b>\$ (1,217,802)</b>	<b>\$ (37,516,426)</b>	<b>\$ 6,766,868</b>	<b>\$ 11,442,610</b>	<b>\$ 12,185,972</b>	<b>\$ 11,448,049</b>	<b>\$ 15,924,153</b>	<b>\$ 4,477,369</b>	<b>\$ 12,461,701</b>	<b>\$ 6,439,492</b>

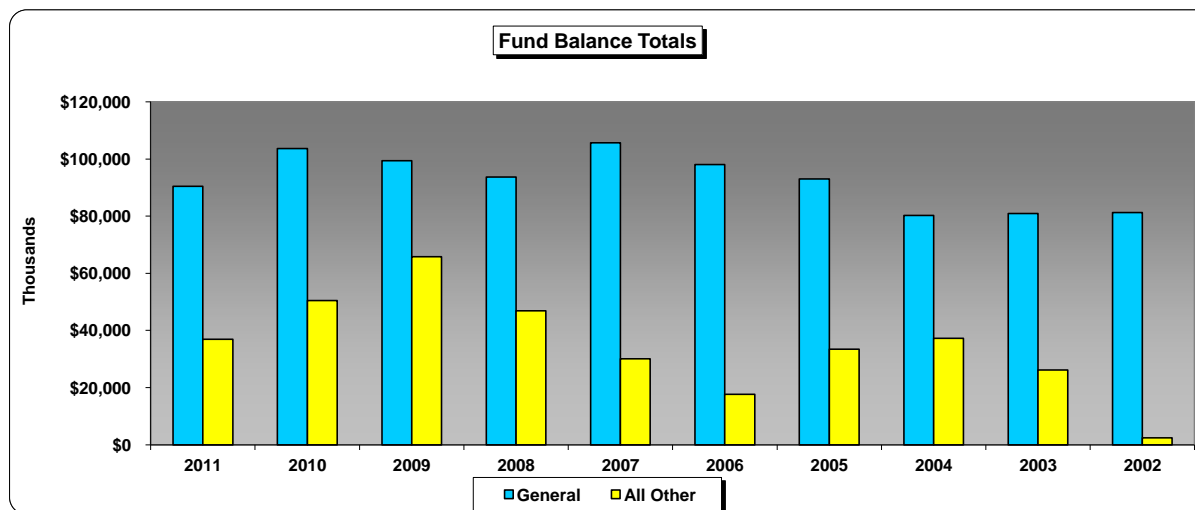
Note: The City began to report accrual information when it implemented GASB 34 in fiscal year 2002.

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

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

	Fiscal Year									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
<b>General fund</b>										
Reserved	\$ -	\$ 6,305,988	\$ 5,194,291	\$ 6,009,589	\$ 6,791,817	\$ 6,356,403	\$ 7,284,539	\$ 6,911,653	\$ 5,940,726	\$ 5,365,065
Unreserved	-	97,366,646	94,164,397	87,703,448	98,820,178	91,686,630	85,724,284	73,370,464	74,999,428	75,929,505
Nonspendable	15,711,917	-	-	-	-	-	-	-	-	-
Restricted	2,011,665	-	-	-	-	-	-	-	-	-
Assigned	31,290,680	-	-	-	-	-	-	-	-	-
Unassigned	41,390,600	-	-	-	-	-	-	-	-	-
<b>Total general fund</b>	<b>\$ 90,404,862</b>	<b>\$ 103,672,634</b>	<b>\$ 99,358,688</b>	<b>\$ 93,713,037</b>	<b>\$ 105,611,995</b>	<b>\$ 98,043,033</b>	<b>\$ 93,008,823</b>	<b>\$ 80,282,117</b>	<b>\$ 80,940,154</b>	<b>\$ 81,294,570</b>
<b>All other governmental funds</b>										
Reserved	\$ -	\$ 17,170,639	\$ 11,977,232	\$ 14,741,065	\$ 12,333,840	\$ 21,873,135	\$ 28,361,951	\$ 10,399,097	\$ 11,101,083	\$ 21,630,621
Unreserved, reported in:										
Special revenue fund	-	12,372,862	15,126,615	10,474,287	9,267,465	8,845,238	10,597,971	12,155,851	9,562,264	9,538,311
Debt service fund	-	6,511,346	1,258,059	2,695,240	1,306,632	319,453	1,137,289	2,524,220	2,501,364	1,789,944
Capital project fund	-	13,290,298	10,927,505	11,555,870	9,492,210	2,749,848	1,253,898	1,408,532	369,835	622,142
Bond fund	-	1,144,480	26,477,781	7,393,868	(2,354,461)	(16,143,636)	(7,897,965)	10,795,788	2,620,832	(31,133,143)
Restricted	28,210,329	-	-	-	-	-	-	-	-	-
Committed	40,772,110	-	-	-	-	-	-	-	-	-
Assigned	30,000	-	-	-	-	-	-	-	-	-
Unassigned	(32,086,837)	-	-	-	-	-	-	-	-	-
<b>Total all other governmental funds</b>	<b>\$ 36,925,602</b>	<b>\$ 50,489,625</b>	<b>\$ 65,767,192</b>	<b>\$ 46,860,330</b>	<b>\$ 30,045,686</b>	<b>\$ 17,644,038</b>	<b>\$ 33,453,144</b>	<b>\$ 37,283,488</b>	<b>\$ 26,155,378</b>	<b>\$ 2,447,875</b>

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



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

	Fiscal Year									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
<b>Revenues</b>										
General Property Taxes	\$230,860	\$236,184	\$233,632	\$219,316	\$208,128	\$189,477	\$170,347	\$159,876	\$153,829	\$145,514
Other Local Taxes	89,063	88,596	89,625	93,162	90,413	89,170	83,396	80,131	74,799	68,401
Lincenses and Permits	3,372	2,846	3,170	3,672	3,315	3,487	3,706	2,690	2,949	3,015
Fines and Forfeitures	2,332	2,213	1,981	1,881	1,826	2,079	2,187	2,231	2,001	1,806
Interest and Rents	2,391	2,653	3,579	6,147	6,437	4,987	3,129	4,206	3,006	3,747
Charges for Services	54,057	55,523	51,003	46,403	44,484	41,289	37,981	36,836	35,105	33,699
Recovered Costs	6,267	5,814	7,948	8,718	7,690	7,551	8,737	6,818	6,171	7,603
Intergovernmental	94,980	92,883	95,048	96,745	94,477	90,199	103,533	102,439	86,444	83,490
Miscellaneous	3,476	3,348	3,821	4,964	5,411	6,714	3,662	3,077	2,983	2,777
Total Revenues	486,798	490,060	489,807	481,008	462,181	434,953	416,678	398,304	367,287	350,052
<b>Expenditures</b>										
General Government	49,331	51,254	51,921	49,368	48,637	57,389	46,546	44,281	46,578	39,479
Judicial Administration	6,592	6,236	6,148	6,218	5,910	5,517	5,184	4,968	4,626	4,846
Public Safety	114,075	108,877	108,467	105,008	99,472	90,508	86,910	82,528	75,105	73,439
Public Works	62,152	58,764	57,178	56,174	51,798	49,915	42,017	40,108	38,164	38,069
Health and Welfare	48,918	49,309	52,154	52,892	50,487	48,989	44,957	48,845	46,483	42,868
Education	118,262	119,581	119,088	121,770	121,050	104,848	109,639	99,397	102,828	99,113
Parks Recreation Culture	26,923	25,976	27,082	28,174	26,384	24,412	21,822	20,732	19,557	19,508
Community Development	10,852	8,959	7,439	8,899	7,140	9,573	8,932	6,040	6,813	6,679
Debt Service:										
Principal	33,675	33,444	34,422	35,742	31,333	31,156	38,750	26,536	24,422	22,084
Interest	28,100	24,356	26,054	24,792	21,861	17,281	20,625	19,371	18,313	19,014
Capital Outlay	27,791	27,186	21,858	33,615	37,535	52,626	25,945	33,992	29,551	28,454
Bond Issuance Cost	-	-	-	-	370	475	-	-	-	-
Total Expenditures	526,671	513,942	511,811	522,651	501,977	492,689	451,327	426,798	412,440	393,553
Excess (deficiency) of Revenues Over (under) Expenditures	(39,873)	(23,882)	(22,004)	(41,643)	(39,796)	(57,736)	(34,649)	(28,494)	(45,153)	(43,501)
<b>Other Financing Sources (Uses)</b>										
Transfer In	87,189	69,587	66,217	78,707	63,120	51,963	44,599	40,261	38,638	37,100
Transfer Out	(77,189)	(59,587)	(56,217)	(68,707)	(54,010)	(42,829)	(35,465)	(34,051)	(29,704)	(28,426)
Payment to Refund Bonds	-	-	(136)	-	(22,380)	(30,533)	(11,785)	(71,635)	(73,517)	-
Premium on Refunded Bonds	-	-	663	1,716	3,666	2,131	1,109	644	-	-
Refund Bonds Proceeds	-	-	481	-	20,370	28,020	12,720	71,635	-	-
Bond and Note Proceeds	3,041	2,918	35,549	34,843	49,001	37,873	32,367	29,312	133,091	37,875
Premium on Bonds Issuance	-	-	-	-	-	985	-	-	-	-
Capital Leases	-	-	-	-	-	-	-	388	-	-
Total Other Financing Sources (Uses)	13,041	12,918	46,557	46,559	59,767	47,610	43,545	36,554	68,508	46,549
Net Change in Fund Balance	(\$26,832)	(\$10,964)	\$24,553	\$4,916	\$19,971	(\$10,126)	\$8,896	\$8,060	\$23,355	\$3,048
Debt Service as a Percentage of Noncapital Expenditures	12.4%	11.9%	12.3%	12.4%	11.5%	11.0%	14.0%	11.7%	11.2%	11.3%

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

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

	<b>Fiscal Year</b>										<b>% Change</b>
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2002-2011</b>
<b>Property tax</b>	\$230,980,102	\$236,183,979	\$233,631,532	\$219,315,976	\$208,128,176	\$189,477,417	\$170,347,467	\$159,875,655	\$153,828,500	\$145,513,560	58.7%
<b>E911 service</b>	729,711	737,734	708,725	571,027	1,078,375	2,750,556	2,737,853	2,788,546	2,937,283	2,939,559	-75.2%
<b>Telecom sales</b>	12,321,643	12,018,133	12,416,819	13,177,014	4,772,796	-	-	-	-	-	40.1%
<b>Sales tax</b>	21,206,724	20,862,730	21,930,591	23,572,320	23,276,742	22,432,446	20,955,339	20,294,801	18,801,952	17,777,556	19.3%
<b>Utility tax</b>	6,511,120	6,321,381	6,137,436	6,112,238	8,017,460	9,254,101	9,515,933	9,345,342	9,608,733	9,027,951	-27.9%
<b>Cellular telephone tax</b>	-	-	-	-	2,138,607	3,117,614	2,848,339	2,615,736	2,357,579	1,888,160	0.0%
<b>Consumption tax</b>	674,265	776,672	728,656	704,570	695,383	774,586	641,699	680,202	688,401	623,617	87.0%
<b>Business license tax</b>	15,115,176	15,266,938	14,676,421	15,116,393	14,770,199	14,701,673	13,391,073	12,199,360	11,375,961	11,373,050	32.9%
<b>Rental car tax</b>	1,044,775	1,021,610	1,058,659	996,093	966,780	932,481	870,813	898,190	792,298	763,427	36.9%
<b>Franchise license tax</b>	-	-	-	-	890,920	1,732,167	1,670,013	1,606,670	1,540,204	1,604,246	0.0%
<b>Cable television tax</b>	-	-	-	-	1,225,349	2,108,165	2,006,039	2,087,952	2,088,184	1,857,017	0.0%
<b>Motor vehicle license tax</b>	3,880,996	3,922,803	3,905,814	3,531,053	3,578,087	3,585,645	3,585,609	3,531,624	3,436,659	3,385,495	14.6%
<b>Bank stock tax</b>	957,902	1,015,597	727,678	588,882	584,773	600,317	532,019	544,584	556,238	719,430	33.1%
<b>Recordation and wills tax</b>	1,065,889	1,263,938	1,461,537	2,219,287	2,120,046	2,535,995	1,969,391	1,052,317	885,362	769,022	38.6%
<b>Tobacco tax</b>	4,269,564	4,160,343	4,119,169	4,205,798	4,406,514	4,622,565	4,639,855	5,090,983	3,720,193	2,929,615	45.7%
<b>Hotel and motel room tax</b>	3,064,515	2,969,053	3,130,281	3,454,926	3,386,331	2,802,362	2,686,120	2,724,109	2,458,217	1,713,638	78.8%
<b>Restaurant food tax</b>	17,767,348	17,765,937	18,074,235	18,348,254	17,943,384	16,649,811	14,779,660	14,092,861	12,987,152	10,449,262	70.0%
<b>Amusement tax</b>	453,712	493,079	548,722	563,673	560,836	569,643	566,599	577,777	564,602	580,204	-21.8%
<b>Total Taxes</b>	<b>\$320,043,442</b>	<b>\$324,779,927</b>	<b>\$323,256,275</b>	<b>\$312,477,504</b>	<b>\$298,540,758</b>	<b>\$278,647,544</b>	<b>\$253,743,821</b>	<b>\$240,006,709</b>	<b>\$228,627,518</b>	<b>\$213,914,809</b>	<b>49.6%</b>

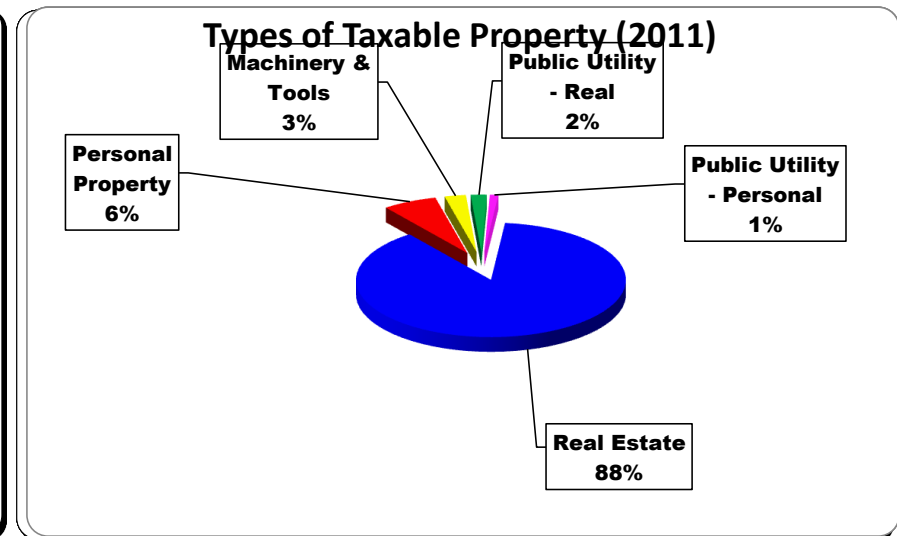
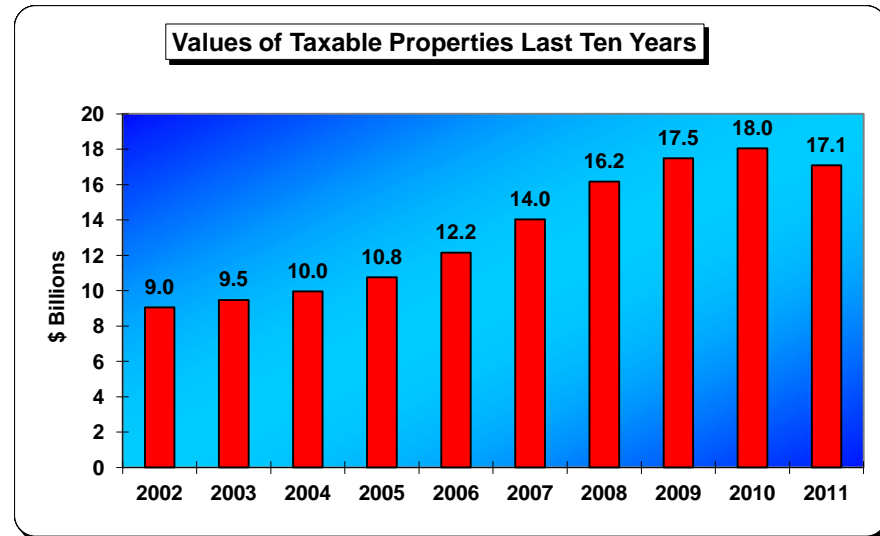
**Note:** Effective in FY 2007, all communication taxes (E-911, utility, cellular telephone, franchise license and cable television) are reported under telecom sales.

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

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Utility		Less: Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value
				Real Estate	Personal Property				
2002	7,406,809	904,361	356,746	224,419	157,451	-	9,049,786	-	-
2003	7,807,813	939,795	348,958	220,333	157,950	-	9,474,849	-	-
2004	8,301,266	962,822	343,020	209,128	151,551	-	9,967,787	-	-
2005	9,042,610	1,024,049	337,032	204,572	148,487	-	10,756,750	-	-
2006	12,887,570	1,155,202	343,770	186,890	117,131	(2,538,300)	12,152,263	1.59	14,690,563
2007	15,141,893	1,161,864	352,403	180,706	92,112	(2,901,608)	14,027,370	1.55	16,928,978
2008	17,390,981	1,233,279	364,010	211,388	136,000	(3,157,425)	16,178,233	1.53	19,335,658
2009	19,011,429	1,195,193	397,899	250,995	163,492	(3,530,295)	17,488,713	1.51	21,019,008
2010	19,762,256	1,154,011	419,441	293,307	172,545	(3,753,027)	18,048,533	1.37	21,801,560
2011	18,600,158	1,165,494	438,747	326,889	173,108	(3,614,365)	17,090,031	1.40	20,704,396

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

Source: City of Newport News Real Estate Assessors Office

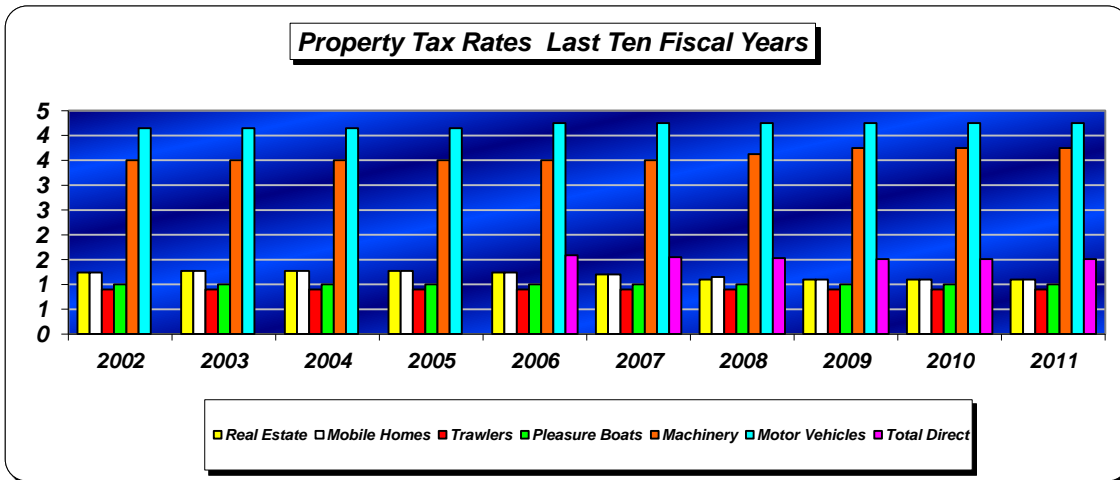




**City of Newport News**  
**Direct and Overlapping Property Taxes**  
**Last Ten Fiscal Years**  
**(Rate per \$100 of assessed value)**

City Direct Rates							
Fiscal Year	Real Estate	Mobile Homes	Trawlers	Pleasure Boats	Machinery & Tools	Motor Vehicles	Total Direct Rate
2002	1.24	1.24	0.90	1.00	3.50	4.15	-
2003	1.27	1.27	0.90	1.00	3.50	4.15	-
2004	1.27	1.27	0.90	1.00	3.50	4.15	-
2005	1.27	1.27	0.90	1.00	3.50	4.15	-
2006	1.24	1.24	0.90	1.00	3.50	4.25	1.59
2007	1.20	1.20	0.90	1.00	3.50	4.25	1.55
2008	1.10	1.15	0.90	1.00	3.63	4.25	1.53
2009	1.10	1.10	0.90	1.00	3.75	4.25	1.51
2010	1.10	1.10	0.90	1.00	3.75	4.25	1.51
2011	1.10	1.10	0.90	1.00	3.75	4.25	1.51

**Note:** Prior to the implementation of GASB 44 in FY06, total direct rate was not required.  
**Source:** City of Newport News Office of the Commissioner of Revenue



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

	2011		2002	
	Taxable Assessed Value	Percentage of Assessments	Taxable Assessed Value	Percentage of Assessments
Northrop Grumman Shipbuilding Inc *1	\$15,060	8.30%	\$11,571	8.70%
Canon Virginia Inc *2	2,784	1.53%	1,461	1.10%
Dominion Virginia Power *6	2,004	1.10%	1,326	1.00%
Continental Automotive Systems Us Inc	1,927	1.06%	-	
The Mariners Museum (Riverside Hospital)	1,582	0.87%	517	0.39%
Verizon Virginia Inc *7	1,511	0.83%	1,184	0.89%
PR Patrick Henry L L C *8	1,453	0.80%	1,005	0.76%
Kinder Morgan Operation LP"C"	1,065	0.59%	502	0.38%
Dominion Terminal Associates *3	1,001	0.55%	953	0.72%
Inland Western Newport News	754	0.42%	-	
Virginia Natural Gas Inc	638	0.35%	442	0.33%
Bottling Group L L C *4	551	0.30%	232	0.17%
Patrick Henry Hospital (Warwick Forest)	496	0.27%	-	
Cox Communications Hampton Roads, Inc	478	0.26%	286	0.21%
Ferguson Enterprises Corp	470	0.26%	-	
Oyster Point Residential L L C	457	0.25%	-	
Meridian Parkside Apartments L L C	415	0.23%	-	
CSX Transportation	354	0.20%	307	0.23%
Harbours L L C *5	345	0.19%	238	0.18%
The Daily Press Inc	318	0.18%	339	0.26%
Seimens - Bendix Automotive	-	-	1,652	1.24%
Shorewood Packaging Corp Of Va	-	-	596	0.45%
Seimens Credit	-	-	565	0.43%
United Dominion Realty Trust Inc	-	-	313	0.24%
Newport-Oxford Associates Ltd	-	-	229	0.17%
Denbigh Associates	-	-	225	0.17%
<b>Total</b>	<b>\$33,663</b>	<b>18.55%</b>	<b>\$23,943</b>	<b>18.02%</b>

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

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

\*1 Previously Newport News Shipbuilding and Dry Dock Company

\*2 Previously Canon USA Inc

\*3 Previously Peninsula Port Authority - Dominion Terminal Associates

\*4 Previously Pepsi-Cola Packaging

\*5 Previously Harbours Associates

\*6 Previously Virginia Electric & Power Company

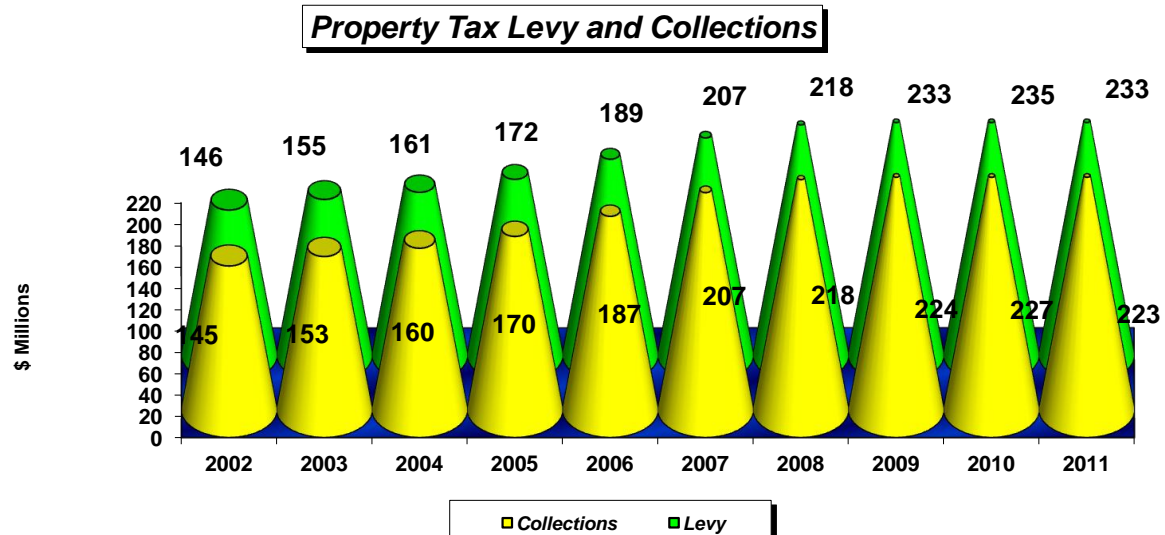
\*7 Previously Bell Atlantic

\*8 Previously Crown American Financing

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

Fiscal Year	Tax Levy		Current Year		Prior Year		Collections in Subsequent Years	Total Collections for Year				
			Amount	% of Levy	Amount			Amount	% of Levy			
2002	\$	146,232	\$	137,707	94.2%	\$	7,017	\$	-	\$	144,724	99.0%
2003		154,654		145,541	94.1%		7,729		-		153,270	99.1%
2004		160,747		152,197	94.7%		7,463		-		159,660	99.3%
2005		171,852		162,199	94.4%		7,497		-		169,696	98.7%
2006		188,870		180,295	95.5%		-		6,355		186,650	98.8%
2007		207,427		200,041	96.4%		-		7,236		207,277	99.9%
2008		218,395		210,243	96.3%		-		7,831		218,074	99.9%
2009		232,507		224,199	96.4%		-		7,592		224,199	96.4%
2010		235,225		227,030	96.5%		-		6,476		227,030	96.5%
2011		233,380		222,804	95.5%		-		Not Available		222,804	95.5%

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



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

	<b>Fiscal Year</b>									
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Population</b>	180,719	193,172	193,212	187,200	186,000	186,000	185,240	185,200	181,640	180,305
<b>Personal Income</b>	-	-	\$ 6,011,449	\$ 6,011,085	\$ 5,500,739	\$ 5,225,657	\$ 5,086,295	\$ 4,872,092	\$ 4,598,879	\$ 4,416,298
<b>Governmental Activities:</b>										
General Obligation Bonds	\$ 353,639	\$ 383,753	\$ 413,482	\$ 411,159	\$ 411,567	\$ 401,020	\$ 394,354	\$ 399,243	\$ 397,114	\$ 363,037
Guaranty of Peninsula Airport Bonds	4,490	4,780	5,055	5,315	5,565	5,800	6,000	6,245	6,450	6,640
Literary Fund	6,717	7,237	8,034	8,830	9,321	2,895	3,564	4,233	4,903	5,429
Capital Leases	-	-	388	53	140	219	293	360	45	122
Bond Anticipation Notes	-	-	-	-	-	-	-	-	-	20,000
<b>Business-type Activities:</b>										
Public Utility Bonds	172,695	186,330	217,720	208,855	195,155	152,675	165,220	178,025	189,110	178,215
<b>Total Primary Government</b>	<b>\$ 537,541</b>	<b>\$ 582,100</b>	<b>\$ 644,679</b>	<b>\$ 634,212</b>	<b>\$ 621,748</b>	<b>\$ 562,609</b>	<b>\$ 569,431</b>	<b>\$ 588,106</b>	<b>\$ 597,622</b>	<b>\$ 573,443</b>
<b>Percentage of Personal Income</b>	0.0%	0.0%	10.7%	10.6%	11.3%	10.8%	11.2%	12.1%	13.0%	13.0%
<b>Net Bonded Debt Per Capita</b>	<b>\$ 2,974</b>	<b>\$ 3,013</b>	<b>\$ 3,337</b>	<b>\$ 3,388</b>	<b>\$ 3,343</b>	<b>\$ 3,025</b>	<b>\$ 3,074</b>	<b>\$ 3,176</b>	<b>\$ 3,290</b>	<b>\$ 3,180</b>

**Note:** Population figures are derived as follows: 2002 Virginia Employment Commission, 2003 - 2008 City estimates, 2009 and 2010 Census Bureau estimates, 2011 Census Bureau.

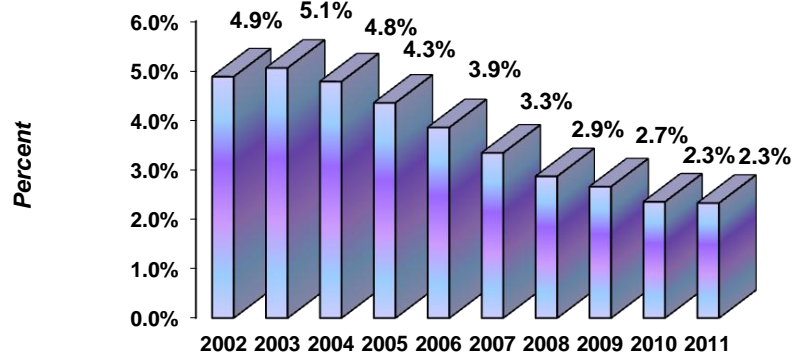
**Note:** Personal Income figures were not available for FY2010 and FY2011.

**City of Newport News, Virginia**  
**Ratios of General Bonded Debt Outstanding**  
**Last Ten Fiscal Years**

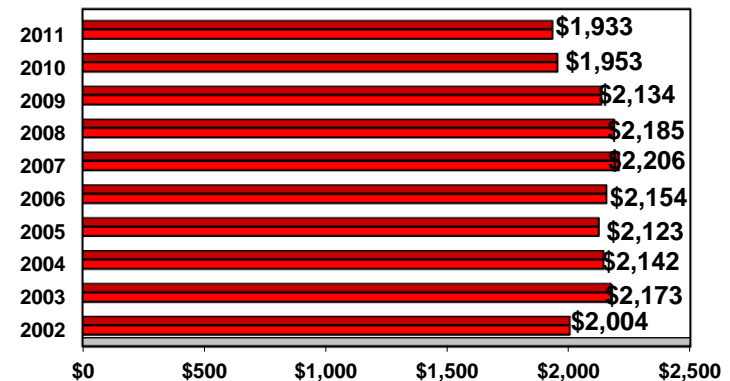
<b>Fiscal Year</b>	<b>Population</b>	<b>Assessed Value of Real Property</b>	<b>General Obligation Bonds</b>	<b>Less Debt Service</b>	<b>Net Bonded Debt</b>	<b>Net Bonded Debt as % of Assessed Valuation</b>	<b>Net Bonded Debt Per Capita</b>
2002	\$ 180,305	\$ 7,406,809	\$ 363,037	\$ 1,790	\$ 361,247	4.9%	\$ 2,004
2003	181,640	7,807,813	397,114	2,501	394,613	5.1%	2,173
2004	185,200	8,301,266	399,243	2,524	396,719	4.8%	2,142
2005	185,240	9,042,610	394,354	1,137	393,217	4.3%	2,123
2006	186,000	10,404,207	401,020	319	400,701	3.9%	2,154
2007	186,000	12,293,454	411,567	1,307	410,260	3.3%	2,206
2008	187,200	14,286,003	411,159	2,139	409,020	2.9%	2,185
2009	193,212	15,527,921	413,482	1,258	412,224	2.7%	2,134
2010	193,172	16,059,444	383,753	6,511	377,242	2.3%	1,953
2011	180,719	15,037,654	353,639	4,371	349,268	2.3%	1,933

Note: Population figures are derived as follows: 2002 Virginia Employment Commission, 2003 - 2008 City estimates, 2009 and 2010 Census Bureau estimates, 2011 Census Bureau.

**Debt as % of Assessed Property Value**

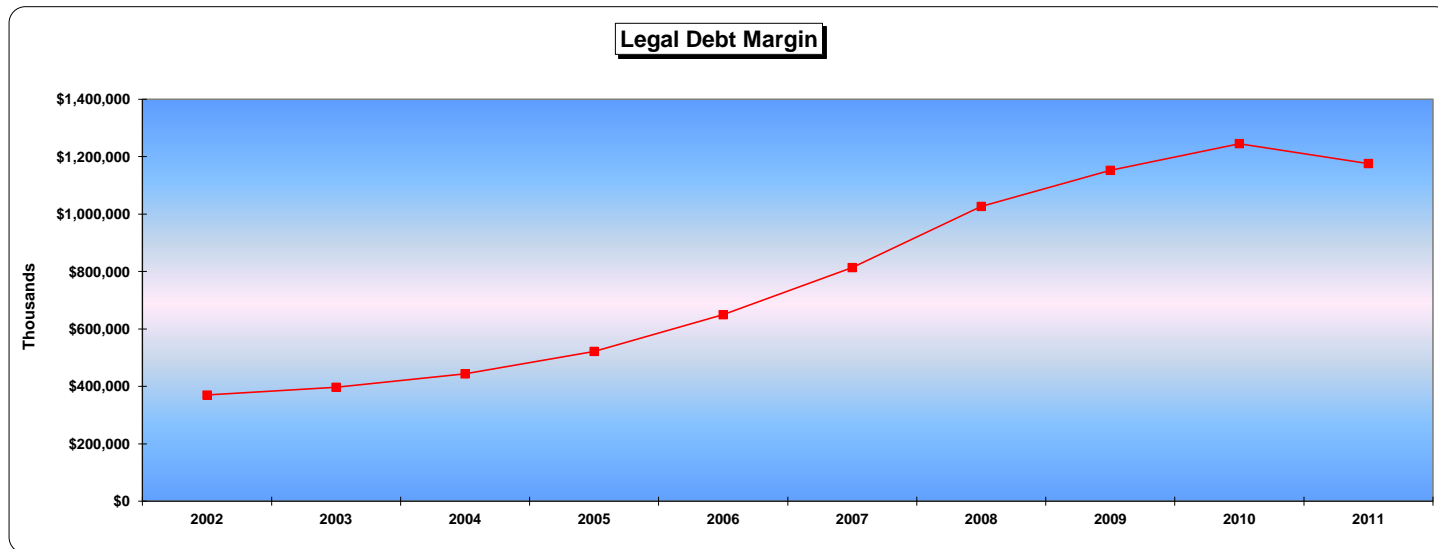


**Debt per Capita**



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

	Fiscal Year									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
<b>Assessed Value of Real Estate:</b>										
General	\$15,037,654,401	\$16,059,444,443	\$15,527,920,717	\$14,286,002,924	\$12,293,453,737	#####	\$9,042,610,300	\$8,301,266,000	\$7,807,813,049	\$7,406,809,000
Public Service Corporations	326,888,523	293,307,435	250,994,845	211,388,045	180,706,024	186,889,718	204,600,000	209,128,000	220,333,000	224,419,000
<b>Total assessed value</b>	<b>15,364,542,924</b>	<b>16,352,751,878</b>	<b>15,778,915,562</b>	<b>14,497,390,969</b>	<b>12,474,159,761</b>	<b>10,591,096,470</b>	<b>9,247,210,300</b>	<b>8,510,394,000</b>	<b>8,028,146,049</b>	<b>7,631,228,000</b>
<b>Total debt limit (10% of Total Assessed Value)</b>	<b>1,536,454,292</b>	<b>1,635,275,188</b>	<b>1,577,891,556</b>	<b>1,449,739,097</b>	<b>1,247,415,976</b>	<b>1,059,109,647</b>	<b>924,721,030</b>	<b>851,039,400</b>	<b>802,814,605</b>	<b>763,122,800</b>
<b>Bonds Outstanding:</b>										
General Obligation	311,700,000	341,405,000	378,499,990	371,155,000	378,656,195	358,855,000	353,330,000	359,055,000	358,345,000	323,890,000
General Obligation: Virginia Public School Authority (VPSA)	5,256,983	6,105,937	6,929,403	7,728,827	8,506,195	9,263,363	10,000,000	10,717,000	11,414,389	12,095,723
General Obligation: Virginia Resources Authority (VRA) Loan Fund	31,776,867	30,761,968	21,997,022	25,644,960	25,705,339	25,121,275	22,668,400	20,452,000	19,731,824	17,918,003
General Obligation: Virginia Municipal Pool Loans (VMPL)	2,462,565	3,037,565	3,612,565	4,187,565	4,762,565	5,337,565	5,912,600	6,577,800	7,622,753	9,132,753
Guaranty of Peninsula Airport Bonds	4,490,000	4,780,000	5,055,000	5,315,000	5,565,000	5,800,000	6,000,000	6,245,000	6,450,000	6,640,000
Literary Fund	6,717,425	7,598,441	8,034,421	8,829,688	9,320,937	2,894,833	3,564,100	4,233,000	4,902,580	5,429,377
Qualified Zone Academy Bonds (QZAB)	2,442,494	2,442,494	2,442,494	2,442,494	2,442,494	2,442,494	2,442,500	2,442,494	-	-
Bond Anticipation Notes	-	-	-	-	-	-	-	-	-	20,000,000
Capital leases	-	360,965	387,811	53,406	139,513	219,145	292,800	360,000	45,405	122,396
Amount available in Debt Service Fund	(4,370,897)	(6,511,346)	(1,258,059)	(2,138,839)	(1,306,632)	(319,453)	(1,137,300)	(2,524,220)	(2,501,364)	(1,789,944)
<b>Total debt outstanding</b>	<b>360,475,437</b>	<b>389,981,024</b>	<b>425,700,647</b>	<b>423,218,101</b>	<b>433,791,606</b>	<b>409,614,222</b>	<b>403,073,100</b>	<b>407,558,074</b>	<b>406,010,587</b>	<b>393,438,308</b>
<b>Legal debt margin</b>	<b>\$1,175,978,855</b>	<b>\$1,245,294,164</b>	<b>\$1,152,190,909</b>	<b>\$1,026,520,996</b>	<b>\$813,624,370</b>	<b>\$649,495,425</b>	<b>\$521,647,930</b>	<b>\$443,481,326</b>	<b>\$396,804,018</b>	<b>\$369,684,492</b>
<b>Total net debt applicable to the limit as a % of debt limit</b>	<b>76.54%</b>	<b>76.15%</b>	<b>73.02%</b>	<b>70.81%</b>	<b>65.22%</b>	<b>61.32%</b>	<b>56.41%</b>	<b>52.11%</b>	<b>49.43%</b>	<b>48.44%</b>



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

**Water Revenue Bonds**

<b>Fiscal Year</b>		<b>Utility Revenues</b>		<b>Less: Operating Expenses</b>		<b>Net Available Revenue</b>
<b>2011</b>	\$	66,642,840	\$	42,366,226	\$	24,276,614
<b>2010</b>		71,430,670		42,696,817		28,733,853
<b>2009</b>		78,895,705		41,913,154		36,982,551
<b>2008</b>		76,709,312		40,055,422		36,653,890
<b>2007</b>		71,968,747		36,474,026		35,494,721

**Notes:** (1) Details regarding Public Utilities' outstanding debt can be found in the notes to the financial statements.  
(2) 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
2002	180,305	4,416,298	22,849	32	31,440	4.8%
2003	181,640	4,598,879	23,654	32	31,535	4.9%
2004	185,200	4,872,092	23,986	32	31,358	5.2%
2005	185,240	5,086,295	25,233	32	30,827	4.8%
2006	186,000	5,225,657	26,782	32	30,635	4.2%
2007	186,000	5,500,739	28,436	33	30,218	3.4%
2008	187,200	5,941,588	28,990	34	29,441	4.0%
2009	193,212	6,011,449	30,423	33	29,023	6.5%
2010	193,172	-	30,423	32	28,610	8.0%
2011	180,719	-	31,120	32	28,183	7.6%

**Sources:**

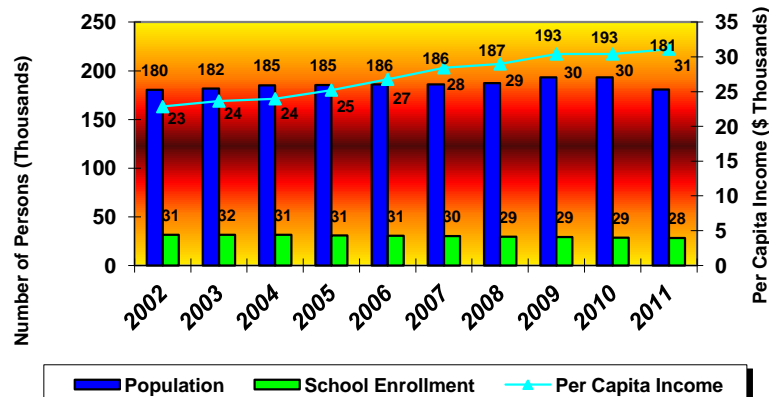
Note: Population figures are derived as follows: 2002 Virginia Employment Commission, 2003 - 2008 City estimates, 2009 and 2010 Census Bureau estimates, 2011 Census Bureau.

Personal Income: 2000 - 2007 Virginia Employment Commission; 2008-2009 Bureau of Economic Accounts; 2010 - 2011 were not available at year-end.

Per Capita Income: 2000 City of Newport News; 2001 and 2005 Census Bureau; 2002 - 2011 Bureau of Economic Analysis.

Unemployment Rate: 2000 - 2009 Virginia Employment Commission; 2010-2011 Virginia Workforce Connection.

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



**Median Age - Unemployment**





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

	2011		2002	
	Employees	% of Total City Employment	Employees	% of Total City Employment
<b>Huntington Ingalls Industries, Inc.</b>	10,000 - 25,000	18.08%	10,000 - 25,000	20.24%
<b>Newport News Public Schools</b>	1,000 - 5,000	3.10%	1,000 - 5,000	3.47%
<b>Riverside Regional Medical Center</b>	1,000 - 5,000	3.10%	1,000 - 5,000	3.47%
<b>City of Newport News</b>	1,000 - 5,000	3.10%	1,000 - 5,000	3.47%
<b>U. S. Department of Defense</b>	1,000 - 5,000	3.10%	1,000 - 5,000	3.47%
<b>Ferguson Enterprise</b>	1,000 - 5,000	3.10%	-	-
<b>Canon</b>	1,000 - 5,000	3.10%	500 - 999	0.87%
<b>U. S. Department of Army &amp; Air Force</b>	1,000 - 5,000	3.10%	1,000 - 5,000	3.47%
<b>Christopher Newport University</b>	1,000 - 5,000	3.10%	500 - 999	0.87%
<b>Hampton Newport News Community Services Board</b>	500 - 999	0.77%	-	-
<b>MCI Payroll Services</b>	-	-	1,000 - 5,000	3.47%
<b>Siemen's Automotive Corporation</b>	-	-	500 - 999	0.87%
<b>Total</b>	18,000 - 56,998	43.65%	17,500 - 52,997	43.66%

Source: Virginia Employment Commission

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

Full-Time City Government Employees as of June 30										
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
<b>Fund, Function, Activity and Elements</b>										
<b>General Fund:</b>										
<b>General Government Administration:</b>										
<b>Legislative:</b>										
City Council	7	7	7	7	7	7	7	7	7	7
City Clerk	5	5	5	5	5	5	5	5	5	5
<b>General and Financial Administration:</b>										
City Manager	18	21	21	23	23	12	12	12	13	12
Human Resources	19	18	18	20	20	18	17	17	16	16
City Attorney	18	18	18	19	19	18	18	17	15	15
Management/Legislative Services	0	0	0	0	0	10	10	10	10	10
Internal Auditor	6	6	6	7	7	7	7	7	7	7
Commissioner of the Revenue	40	42	42	40	40	40	40	40	40	40
Real Estate Assessor	22	23	23	23	23	23	23	23	23	23
City Treasurer	33	34	34	35	35	34	34	34	34	34
Finance	18	18	18	19	19	19	19	19	19	19
Budget and Evaluation	7	7	7	7	7	7	7	7	7	7
Office of Self-Insurance	6	9	9	9	9	9	9	10	9	10
Purchasing	23	23	23	24	24	24	24	24	25	21
Information Technology	58	63	63	66	66	65	65	65	65	65
<b>Board of Elections:</b>										
Registrar	5	5	5	5	5	5	5	5	5	5
<b>Total General Government Administration</b>	<b>285</b>	<b>299</b>	<b>299</b>	<b>309</b>	<b>309</b>	<b>303</b>	<b>302</b>	<b>302</b>	<b>300</b>	<b>296</b>
<b>Judicial administration:</b>										
<b>Courts:</b>										
Circuit Courts	7	7	7	7	7	7	7	7	7	7
Office of the Magistrate	6	6	6	6	6	6	6	6	6	6
Clerk of the Circuit Court	24	27	27	27	27	27	27	27	27	27
Court Services	2	2	2	2	2	2	2	2	2	6
Commonwealth's Attorney	49	50	50	51	47	41	41	41	41	41
<b>Total Judicial Administration</b>	<b>88</b>	<b>92</b>	<b>92</b>	<b>93</b>	<b>89</b>	<b>83</b>	<b>83</b>	<b>83</b>	<b>83</b>	<b>87</b>
<b>Public Safety:</b>										
<b>Law Enforcement and Traffic Control:</b>										
Police Department	587	593	593	578	578	564	539	532	531	526
Emergency Communications	-	-	-	4	4	4	4	4	4	4
<b>Fire and Rescue Services:</b>										
Fire Department	382	371	371	372	377	374	374	374	374	349
<b>Correction and Detention:</b>										
Sheriff	217	222	222	202	198	193	187	181	181	181
Adult Corrections	62	69	69	73	72	72	69	69	71	71
Juvenile Detention	128	143	143	168	171	178	178	178	177	110
<b>Inspections:</b>										
Codes Compliance	39	40	40	41	41	41	42	37	37	37
<b>Total Public Safety</b>	<b>1,415</b>	<b>1,438</b>	<b>1,438</b>	<b>1,438</b>	<b>1,441</b>	<b>1,426</b>	<b>1,393</b>	<b>1,375</b>	<b>1,375</b>	<b>1,278</b>
<b>Public Works:</b>										
Engineering	85	93	93	98	97	97	95	84	84	84
Project Services	-	-	-	-	-	-	1	6	6	6
Public Works Administration	158	170	170	167	167	159	151	148	146	142
<b>Total Public Works</b>	<b>243</b>	<b>263</b>	<b>263</b>	<b>265</b>	<b>264</b>	<b>256</b>	<b>247</b>	<b>238</b>	<b>236</b>	<b>232</b>
<b>Welfare:</b>										
Human Services	391	397	397	396	394	394	390	390	392	392
Office of Youth Development	-	-	-	9	9	9	9	9	9	9
<b>Total Welfare</b>	<b>391</b>	<b>397</b>	<b>397</b>	<b>405</b>	<b>403</b>	<b>403</b>	<b>399</b>	<b>399</b>	<b>401</b>	<b>401</b>
<b>Parks and Library:</b>										
Parks and Recreation	106	117	117	122	120	112	112	103	98	98
Parks and Recreation Revolving Fund	95	98	98	95	93	89	75	75	74	75
Library	57	61	61	67	67	63	62	59	58	58
<b>Total Parks, Recreation and Library</b>	<b>258</b>	<b>276</b>	<b>276</b>	<b>284</b>	<b>280</b>	<b>264</b>	<b>249</b>	<b>237</b>	<b>230</b>	<b>231</b>
<b>Community Development:</b>										
<b>Planning and Community Development:</b>										
Development	18	20	20	20	20	18	18	17	16	32
Planning	13	14	14	15	15	14	14	14	14	-
<b>Total Community Development</b>	<b>31</b>	<b>34</b>	<b>34</b>	<b>35</b>	<b>35</b>	<b>32</b>	<b>32</b>	<b>31</b>	<b>30</b>	<b>32</b>
<b>Total General Fund</b>	<b>2,711</b>	<b>2,799</b>	<b>2,799</b>	<b>2,829</b>	<b>2,821</b>	<b>2,767</b>	<b>2,705</b>	<b>2,665</b>	<b>2,655</b>	<b>2,557</b>
<b>OTHER OPERATING FUNDS</b>										
Public Utilities Fund	365	370	370	381	372	374	374	374	374	374
Vehicle & Equipment Services Fund	40	40	40	43	40	45	45	45	45	45
Solid Waste Revolving Fund	66	66	66	68	68	69	66	65	64	61
Wastewater Fund	87	87	87	76	76	78	77	80	80	80
Stormwater Management Fund	79	79	79	84	84	83	61	59	57	57
Pension Fund	6	7	7	7	7	7	7	7	6	5
Economic and Industrial Authority	5	5	5	5	4	4	4	4	4	4
Parking Authority Fund	2	2	2	2	1	1	1	1	1	1
Law Library	1	2	2	2	1	1	1	1	1	1
Schools	4,138	4,296	4,293	4,420	4,468	4,446	4,389	4,281	4,260	4,301
<b>Total Other Operating Funds</b>	<b>4,789</b>	<b>4,954</b>	<b>4,951</b>	<b>5,088</b>	<b>5,121</b>	<b>5,108</b>	<b>5,025</b>	<b>4,917</b>	<b>4,892</b>	<b>4,929</b>
<b>TOTAL CITY EMPLOYEES</b>	<b>7,500</b>	<b>7,753</b>	<b>7,750</b>	<b>7,917</b>	<b>7,942</b>	<b>7,875</b>	<b>7,730</b>	<b>7,582</b>	<b>7,547</b>	<b>7,486</b>

Source: City Adopted Budget.

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

Function/Program	Fiscal Year									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
General Government										
<b>Retail Sales (Millions)</b>	-	1,923	1,873	2,021	2,122	2,029	1,743	1,897	1,809	1,725
Police										
<b>Calls for Service</b>	250,126	251,346	179,975	219,634	230,065	222,939	222,939	221,047	251,777	219,445
Number of Offenses	21,386	23,905	30,787	23,269	24,415	25,336	24,263	27,076	27,645	27,500
Adult Arrests	15,065	15,093	15,496	17,477	18,592	19,288	19,082	18,846	17,409	18,465
Traffic Summonses	15,682	26,611	22,944	23,417	27,072	26,778	37,452	32,791	37,266	37,912
Traffic Accidents	2,480	2,510	3,068	3,484	3,825	3,620	3,341	3,452	3,600	3,648
Fire										
<b>Fire Calls</b>	-	-	12,718	12,569	6,134	12,022	11,702	12,024	13,552	12,802
EMS Calls	-	-	21,492	24,854	24,872	23,931	23,764	21,669	20,354	20,189
Structure Fires	-	-	517	430	484	381	285	314	306	293
<b>Emergency Medical Service/Rescue*</b>	22,190	21,845	-	-	-	-	-	-	-	-
Public Assistance*	1,569	1,483	-	-	-	-	-	-	-	-
Good Intent Calls*	1,309	1,457	-	-	-	-	-	-	-	-
False/Alarm / Alarm Malfunction*	1,418	1,428	-	-	-	-	-	-	-	-
Hazardous Conditions*	720	879	-	-	-	-	-	-	-	-
All Fires*	870	776	-	-	-	-	-	-	-	-
Explosions*	2	18	-	-	-	-	-	-	-	-
Weather Event/Other*	27	16	-	-	-	-	-	-	-	-
Sheriff										
<b>City Jail Capacity</b>	300	248	248	248	248	248	248	248	248	248
Codes Compliance										
<b>Building Permits Issued</b>	1,759	1,821	2,079	2,203	2,640	2,680	2,226	2,876	2,956	3,055
Residential Construction	262	198	91	130	192	257	308	180	344	366
Commercial Construction	81	37	53	59	65	69	101	70	31	58
Waterworks										
<b>Gallons Delivered Per Day (Millions)</b>	40	40	42	44	44	44	43	44	45	45
Meters Connected**	134,403	131,924	128,614	124,956	124,677	123,857	128,090	127,377	126,434	125,488
Public Works										
<b>Potholes Repaired</b>	19,216	17,675	7,742	9,697	12,543	13,542	17,630	13,293	-	-
Streets Resurfaced (Miles)	9	9	10	11	8	22	21	18.50	-	-
Recyclables collected (Tons)	7,641	7,463	9,924	10,538	10,335	10,653	91,411	129,201	142,188	138,143
Parks and Recreation										
<b>Park Vistors (Millions) (All Parks)</b>	4	4	4	4	4	4	-	-	4	3
Celebration of lights vistors	93,428	91,665	103,341	103,400	111,786	95,510	109,223	95,510	91,594	89,496
Tourism visitor inquiries	80,206	79,610	108,412	129,495	141,774	141,300	148,766	136,167	127,970	110,526
Tourism web site visits	126,754	138,048	117,588	116,109	93,418	105,374	129,682	74,653	69,270	39,876
Vistor guides distributed	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	175,000	150,000
Library										
<b>Circulation Transactions</b>	941,934	847,367	767,131	715,613	688,569	668,092	625,276	593,077	635,812	613,330
Reference	140,623	140,071	129,196	126,182	139,285	122,543	110,053	115,234	124,929	127,476
Computer use	235,080	231,601	206,687	176,168	177,092	147,035	126,488	84,285	83,903	64,780
Program attendance	24,552	14,490	16,594	12,323	13,785	17,548	15,074	28,159	15,532	19,751
Visitor count***	814,129	997,912	973,869	942,224	909,939	877,477	808,196	748,834	743,776	744,915
Meeting room use	1,193	1,218	1,223	1,330	1,140	1,029	1,029	1,520	-	-
Schools										
<b>Average Daily Students</b>	28,183	28,610	29,023	29,441	30,218	30,635	30,827	31,358	31,535	31,440

Sources: Various city departments.

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

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

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

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

	Fiscal Year									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
<b>Function/Program</b>										
<b>Police</b>										
Patrol Units	253	240	224	221	224	222	222	222	217	212
Boat	2	2	1	1	1	1	1	-	-	-
<b>Fire</b>										
Stations	11	11	10	10	10	10	10	10	9	9
Fire Trucks	23	23	25	24	22	20	19	17	16	15
Ambulances	17	17	17	16	16	16	16	18	18	18
Boats	2	2	2	2	2	1	1	1	-	-
<b>Engineering</b>										
Streetlights	19,780	19,645	19,616	20,411	19,791	19,760	18,660	19,507	19,186	19,075
Traffic Lights	255	253	253	258	256	256	255	251	249	237
<b>Parks and Recreation</b>										
Parks	35	35	35	32	32	19	19	19	19	19
Acreage	9,119	9,119	9,119	9,119	9,939	8,978	8,978	8,978	8,978	8,978
Athletic Fields	97	97	97	102	102	77	77	77	76	76
Mini-parks	3	3	3	3	4	6	6	6	6	6
Beach/Waterfront Areas	8	8	8	4	4	6	6	6	6	6
Boat Ramps	7	7	9	5	5	3	3	3	3	3
Golf Courses	2	2	2	2	2	2	2	2	2	2
Swimming Pools	3	3	3	3	3	3	3	3	3	3
Tennis Courts (free)	57	57	65	56	57	60	60	60	60	60
Tennis Courts (pay)	24	24	20	20	24	20	20	20	20	20
Squares	3	3	3	2	5	3	3	3	3	3
<b>Library</b>										
Books	325,370	324,531	340,733	333,176	464,194	456,791	444,328	437,324	443,977	431,271
Paperbacks	19,914	21,276	21,173	20,382	24,758	23,443	19,047	17,174	16,053	15,619
Videos /DVD's	26,270	21,259	19,910	15,128	12,821	11,330	9,416	7,018	6,266	5,592
Cassettes/Compact Disks	22,911	20,605	16,359	12,453	21,227	19,683	18,202	17,107	15,566	13,426
Microfilm	-	-	-	5,320	9,216	9,176	9,124	9,080	9,066	9,066
Microfiche	-	-	-	-	1,060	1,060	1,060	1,060	1,060	1,060
<b>Waterworks</b>										
Miles of Pipe	1,798	1,780	1,786	1,785	1,781	1,772	1,763	1,754	1,740	1,720
Fire Hydrants	10,821	10,700	10,650	10,129	9,944	9,843	9,704	9,595	9,287	9,104
<b>Public Works</b>										
Refuse Carts	82,023	76,607	76,729	76,725	76,202	76,491	76,029	71,164	1,556	1,565
Streets (miles)	505	505	504	504	503	503	502	502	501	499
Lanes (miles)	1,191	1,184	1,183	1,183	1,180	1,180	1,177	1,177	1,175	1,168
Sanitary sewers (miles)*	554	572	572	708	708	602	602	602	602	602
Storm sewers (miles)*	542	487	487	659	605	605	605	555	537	537
Pump Stations	177	179	179	175	171	170	-	-	-	-
<b>Schools</b>										
Early Childhood centers	4	4	4	4	4	4	4	3	3	3
Elementary schools	25	26	26	26	25	27	27	27	27	27
Middle schools	7	7	7	8	8	7	7	8	8	8
High schools	5	5	5	5	5	5	5	5	5	5
Elem-Middle combo schools	1	1	1	1	1	1	1	1	1	1

**Sources:** Various city departments.

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



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

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

We have audited the financial statements of the City of Newport News, Virginia (the "City") as of and for the year ended June 30, 2011, and have issued our report thereon dated December 08, 2011. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Other auditors audited the financial statements of the Peninsula Airport Commission, a component unit of the City. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

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

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 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.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the

determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

*Cheng Beckett + Holland, L.L.P.*

Richmond, Virginia  
December 08, 2011



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

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

**Compliance**

We have audited the compliance of the City of Newport News, Virginia, (the "City"), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

**Internal Control Over Compliance**

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

Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a possibility material compliance with a type of compliance requirement of a federal program will not be prevented detected and corrected on a timely basis.

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

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

*Cheng Beckert + Holland, L.L.P.*

Richmond, Virginia  
December 08, 2011



**CITY OF NEWPORT NEWS, VIRGINIA**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

<b>Federal Granting Agency/Recipient State Agency</b>	<b>CFDA Number</b>	<b>Federal Expenditures</b>
<b>DEPARTMENT OF AGRICULTURE</b>		
Pass-through Payments:		
Department of Social Services:		
State Administrative Matching Grants for Food Stamp Program (765-460-03; 765-452-13)	10.561	\$ 2,515,062
ARRA-State Administrative Matching Grants for Food Stamp Program	10.561	87,120
Department of Agriculture:		
Food Distribution-Commodities	10.550	1,007
School Lunch Program-Commodities	10.555	\$ 7,660
Department of Education:		
School Breakfast Program (777-360-01; 777-360-03)	10.553	<u>127,523</u>
Total Child Nutrition Cluster		135,183
 <b>DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</b>		
Direct Payments:		
Community Development Block Grant Program	14.218	1,396,095
Community Development Block Grants (B09-MC-51-0015)		
Community Development Block Grant ARRA Entitl Grants (B09-MY-51-0015)	14.253	76,258
Homelessness Prevention & Rapid Re-Housing (Recovery Act Funded)	14.257	333,547
Pass-through Payments:		
Department of Housing & Community Development:		
Neighborhood Stabilization Program (08-NSP-05)	14.228	423,715
Home Investment in Affordable Housing (M-10-MC-51-0202)	14.239	429,861
Economic Development Initiative Special Projects (B08-SP-VA-0709)	14.251	161,309
 <b>DEPARTMENT OF JUSTICE</b>		
Direct Payments -		
Office of Justice Programs:		
Community Prosecution and Project Safe Neighborhoods(140-309-01)	16.609	85,275
	16.710	38,494
Edward Byrne Memorial Justice Assistance Grants (2010-DJ-BX-0899)	16.738	398,809
Recovery Act-Edward Byrne Memorial Justice Assistance Grants	16.804	140,479
Grants to Units of Local Government (2009-SB-B9-1805)		
Pass-through Payments:		
Department of Criminal Justice Service:		
Victims of Crime Act (VOCA) (140-390-01)	16.575	256,773
Drug Control & System improvement - Formula Grant (140-390-01)	16.579	101,771
Violence Against Women Formula Grants-ARRA (10-A6144VS09)	16.588	32,257
Byrne Justice Assistance Grants (140-390-01)	16.738	27,364
Office of Juvenile Justice & Delinquency Prevention		
Juvenile Accountability Incentive Block Grants (140-390-01)	16.523	27,388
Part E-Developing, Testing and Demo Prom New Prgms (2009-JL-FX-0291)	16.541	16,400
 <b>DEPARTMENT OF TRANSPORTATION</b>		
Pass-through Payments:		
Va Department of Transportation:		
Highway Planning & Construction	20.205	101,839
Highway Planning & Construction--ARRA Funded	20.205	2,770,479
Va Department of Motor Vehicles:		
State & Community Highway Safety (SC-2011-51172-4114)	20.600	42,705
Alcohol Open Container-Project Grants (154AL-2010-50341)	20.607	8,789
 <b>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</b>		
Direct Payments -		
National Leadership Grants	45.312	<u>2,411</u>
 Totals, page 1		<u>\$ 9,610,390</u>

**CITY OF NEWPORT NEWS, VIRGINIA**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

<b>Federal Granting Agency/Recipient State Agency</b>	<b>CFDA Number</b>	<b>Federal Expenditures</b>
<b>DEPARTMENT OF ENERGY</b>		
Direct Payments:		
Energy Efficiency & Conservation Block Grant Prgm-ARRA (DE-SC0002677)	81.128	\$ 481,808
<b>DEPARTMENT OF HEALTH &amp; HUMAN SERVICES</b>		
Pass-through Payments:		
Department of Social Services:		
Promoting Safe and Stable Families (765-469-01)	93.556	29,411
Temporary Assistance for Needy Families(765-452-01; 765-460-03)	93.558	2,998,105
Refugee and Entrant Assistance (765-460-03; 765-491-02)	93.566	60,006
Low-Income Home Energy Assistance (765-460-03)	93.568	183,421
Child Care and Development Block Grant Act of 1990 (765-452-15)	93.575	1,758,658
ARRA-Child Care and Development Block Grant	93.713	324,847
Child Care and Development Mandatory Matching Funds (765-460-03)	93.596	<u>2,550,554</u>
Total Child Care Cluster		4,634,059
Chafee Education and Training Vouchers Program (765-469-01)	93.599	34,522
Child Welfare Services State Grants (765-460-06)	93.645	12,022
Foster Care - Title IV-E (765-460-03; 765-460-06; 765-469-01)	93.658	1,443,937
ARRA - Foster Care - Title IV-E	93.658	33,254
Adoption Assistance (765-460-03; 765-469-03)	93.659	1,829,720
ARRA - Adoption Assistance	93.659	127,794
Social Services Block Grant (765-460-03; 765-468-02; 765-469-01)	93.667	1,808,224
Independent Living (765-460-03; 765-469-01)	93.674	64,030
State Children's Insurance Program (765-460-03)	93.767	72,286
Medical Assistance Program - Title XIX (765-460-03; )	93.778	1,895,975
Department of Health:		
Injury Prevention & Control Research & State and Comm Programs	93.136	857
Preventative Health & Health Services Block Grant	93.991	<u>819</u>
<b>SOCIAL SECURITY ADMINISTRATION</b>		
Direct Payments:		
Social Security Incentive Program	96.006	\$ 6,800
<b>DEPARTMENT OF HOMELAND SECURITY</b>		
Direct Payments:		
Assistance to Firefighters Grants (EMW-2009-FO-01700)	97.044	69,602
Assistance to Firefighters Grants (EMW-2009-FC-00629R)	97.115	2,597,425
Port Security Grant Program-ARRA (2009-PU-RI-0335)	97.116	11,665
Pass-through Payments:		
Department of Emergency Management:		
Urban Areas Security Initiative (127-775-01)	97.008	18,404
Disaster Grants-Public Assistance (DR-1862)	97.036	263,399
Emergency Management Performance Grants (127-775-01)	97.042	52,408
Port Security Grant Program (127-775-01)	97.056	2,787
State Homeland Security Program (127-775-01)	97.073	<u>489,229</u>
Totals, page 2		<u>19,221,969</u>
Grand Totals		<u><u>\$ 28,832,359</u></u>

Note: This report does not include Newport News Public Schools (NNPS) and Peninsula Airport Commission (PAC) programs. NNPS has conducted a separate audit and that report is issued by NNPS. PAC was required to have a single audit for FY2011 that is issued separately.

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

**(1) Basis of Presentation**

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

**(2) Relationship to Basic Financial Statements**

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

	<b>Federal expenditures</b>
General Fund	\$ 17,828,949
Special Revenue Funds	<u>11,003,410</u>
Total expenditures	<u><u>\$ 28,832,359</u></u>

## Summary of Auditors' Results

1. The type of report issued on the basic financial statements: **UNQUALIFIED OPINION**
2. Significant deficiencies in internal control disclosed by the audit of the financial statements: **NONE REPORTED**
3. Material weaknesses in internal control disclosed by the audit of financial statements: **NO**
4. Noncompliance, which is material to the financial statements: **NO**
5. Significant deficiencies in internal control over major programs: **NO**
6. Material weaknesses in internal control over major programs: **NO**
7. The type of report issued on compliance for major programs: **UNQUALIFIED OPINION**
8. Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **NO**
9. The programs tested as major programs were:

	<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	20.205	Highway Planning and Construction
	20.205	ARRA – Highway Planning and Construction
	93.558	Temporary Assistance for Needy Families
	93.667	Social Services Block Grant
	93.778	Medical Assistance Program
	97.044	Assistance to Firefighters Grant
	97.115	ARRA – Assistance to Firefighters Grant
	14.257	ARRA – Homelessness Prevention and Rapid Re-
Housing	16.738	Byrne Justice Grants to Local Governments
	16.804	ARRA – Byrne Justice Grants to Local Governments

10. Dollar threshold used to distinguish between type A and type B programs: \$864,971
11. City of Newport News was determined to be a low risk auditee.

## **B. Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*: None Noted**

**C. Findings and Questioned Costs Relating to Federal Awards: None Noted**

**D. Resolution of Prior Year Findings:**

**2010-01 Subrecipient Monitoring**

**Byrne Justice Grant – ARRA – CFDA 16.804**

In the prior year Newport News did not complete preliminary requirements of the grant prior to releasing funds to subrecipients. Specific requirements of the grant were not applied to each subrecipient and an understanding of the requirements of the grant was not established at the outset of the grant. The City did not perform site visits to monitor the subrecipients use of the grant funds.

In the current year, there were no subrecipient awards.

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# **COMPREHENSIVE ANNUAL FINANCIAL REPORT 2011**

**Department of Finance  
2400 Washington Avenue  
Newport News, Virginia 23607**

