



# COMPREHENSIVE ANNUAL FINANCIAL REPORT 2018

## CITY OF NEWPORT NEWS VIRGINIA



Fiscal Year Ended June 30, 2018

# CITY OF NEWPORT NEWS, VIRGINIA

## Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2018

Prepared by the  
Department of Finance

2400 Washington Avenue  
Newport News, VA 23607

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# City of Newport News

Virginia 23607

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November 21, 2018

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

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Newport News, Virginia (the City) for the fiscal year ended June 30, 2018 (FY 2018).

Cherry Bekaert LLP, Certified Public Accountants, conducted the audit of the City's financial statements for the year ended June 30, 2018, and have issued an unmodified ("clean") opinion on those statements. The independent auditor's report is located at the front of the Financial Section of this report.

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

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

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

## *Profile of the City and its Government*

The City of Newport News, incorporated in 1896, is located on the eastern coast of Virginia. It occupies 69 square miles with a population of 179,388, based on the 2018 census estimates.



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

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

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

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

The independent agencies that are NOT included in the City financial statements are the Newport News Redevelopment and Housing Authority (NNRHA), the Hampton Roads Community Action Program (HRCAP) and the Hampton-Newport News Community Services Board (HNNCSB).

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

The Budget Department reviews all departmental transfer requests to ensure sufficient appropriations are available. The City Manager has the authority to transfer budgeted amounts among departments within any fund; however, any revisions altering the total appropriations of any fund must be approved by City Council. Budget to actual comparisons are provided in

## CITY OF NEWPORT NEWS, VIRGINIA

this report for each governmental and enterprise fund for which an annual budget has been adopted.

### *Local Economy*

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

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

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

### *Newport News Public School System*

One of the most important services provided by a city to its taxpayers is the education of the children of the community. Schools provides a full range of public education services to approximately 28,401 students in 4 early childhood centers, 24 elementary schools, 7 middle schools, 5 high schools, 1 combination middle/high school, and 9 program sites.

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

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

### *Economic Condition and Outlook*

A city's economic condition is only as good as the condition of its businesses and its taxpayers; Newport News is blessed with a diversity of contributors to the local economy—corporate, military, and educational institutions, in addition to the workers and the many retirees who find the area attractive.

## CITY OF NEWPORT NEWS, VIRGINIA

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

Unemployment rates in Newport News have decreased in the last year, and continue to be better than the national average. As of July 2018, the local unemployment rate (not seasonally adjusted) was 4.2% compared to 4.9% in July 2017. The national rate was 4.2% compared to 4.6% in 2017.

### **ECONOMIC DEVELOPMENT ACTIVITIES**

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

#### ***Huntington Ingalls Industries***

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

Shipbuilding and repair have remained exceptionally strong in 2018. Huntington Ingalls – Newport News Shipbuilding continues to build the next generation of Ford-class aircraft carriers, and will work jointly with Connecticut based Electric Boat to build a new fleet of Columbia-class ballistic missile submarines for the Navy to replace the aging Ohio-class subs. To support this effort, the Shipyard will invest more than \$750 million in its facility and will create 1,000 new jobs by the year 2025. Governor Ralph Northam visited the Shipyard in June 2018 to announce a partnership to raise awareness and promote hiring opportunities. The company anticipates its workforce to reach 25,000 in the next few years.

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

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

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### *Ferguson Enterprises*

A groundbreaking ceremony was held in June 2018, following Governor Terry McAuliffe's announcement that Ferguson Enterprises, Inc. (FEI), the largest wholesale plumbing distributor in the U.S., would expand its Newport News presence and create an additional campus in City Center at Oyster Point. The eight-story, 260,000 square-foot campus will house 1,600 Ferguson employees working in Marketing and Communications, National Sales Center, eBusiness, Human Resources, Information Technology, Security, and other corporate functions. As part of the expansion, FEI will invest nearly \$83 million and create 350 new jobs. Located in Newport News for 47 years, this expansion further solidifies the company's presence in the City.

### *LTD Hospitality Group*

The Holiday Inn Newport News – City Center opened its doors in May 2018. The hotel not only provides an additional quality lodging option in Newport News, but also contributes additional conference and meeting space to the area. LTD Hospitality Group invested over \$14 million to renovate this 182-room hotel, now a new showcase for the City.

### *Liebherr Mining Equipment Company*

Liebherr Mining Equipment Company, located in the Copeland Industrial Park, manufactures the world's largest mining trucks, each selling at a seven-figure price. Liebherr has recently completed a \$31 million expansion of its mining division, announced in 2013. The project has included significant improvements to the surrounding Park infrastructure.

Following the recently completed expansion of Liebherr Mining Equipment, Liebherr USA announced plans to invest \$45 million in March 2018. The expansion will include the construction of three new buildings on twenty-eight acres adjacent to the company's current manufacturing facility. Once completed, the new facilities will total over 251,000 square feet and will be occupied by Liebherr USA, Co., the umbrella for eight divisions positioned across the United States. The expansion will include space for Liebherr USA, Co.'s new headquarters and administrative building. Construction began in July 2018 and will be completed by summer of 2020.

### *Muhlbauer*

In February 2018, Muhlbauer International, a technology producer for the smart card, ePassport and solar back-end industry, opened a \$12 million, 51,200 square-foot showroom and assembly addition to its existing 33,000 square foot office/assembly facility. The expansion adds 15 to 20 additional jobs to its existing workforce of 31 employees. Their Newport News location in Oakland Industrial Park serves as a base for its North American business activities.

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### ***Fairlead Boatworks***

Fairlead Boatworks, the marine services division of Fairlead Integrated, operates in the Seafood Industrial Park, and specializes in the repair of commercial and military vessels. Fairlead has a \$5 million expansion underway in the Seafood Industrial Park that will create 25 new job opportunities across the full range of the ship repair and manufacturing trades. Established in 1958 as Davis Boat Works, the Company is the oldest tenant and largest employer in the Park.

### ***Newport News Industrial***

In May 2018, Newport News Industrial (NNI) completed a \$20 million major expansion project at the company's headquarters facility in Oakland Industrial Park, creating 120 new jobs. The expansion nearly doubled the company's presence in Oakland Industrial Park by adding approximately 52,000 square feet to the existing 66,000 square-foot facility. This investment in facilities and machinery will serve to support NNI's expanding efforts as a supplier to the nuclear power facility industry.

### ***Brooks Crossing***

Newport News Shipbuilding leased and will serve as the anchor tenant of a new building in the Brooks Crossing mixed-use development project, where it plans to locate engineering and design personnel. There will also be collaboration space for innovation and new ventures, including STEM education and entrepreneurial initiatives. Construction is underway on the 105,000 square-foot building, which is anticipated to be completed in Spring 2019. The Newport News Economic Development Authority (NNEDA) plans to lease approximately 15,000 square feet to house two workforce development sites, the Brooks Crossing Digital Shipbuilding Innovation and Fabrication Learning Lab (a partnership with Old Dominion University and Newport News Shipbuilding) and the Brooks Crossing Opportunity Center (a partnership with Goodwill and the Greater Peninsula Workforce Development Board).

In June 2018 a new Piggly Wiggly grocery store opened in Brooks Crossing in the Southeast Community, an area of the City known as a food desert. In addition to typical grocery store offerings, the store also features a community room and a full-service BayPort Credit Union which is the only financial institution in the Southeast Community.

### ***Chase Packaging Site***

In November 2017, Governor Terry McAuliffe announced that the EDA was awarded a \$500,000 Virginia Brownfields Restoration and Economic Assistance competitive grant by the Virginia Economic Development Partnership to significantly accelerate competitive cleanup of the former Chase Packaging site in the Southeast Community. The City has already removed a substantial amount of debris left by the previous owner, and the new funding will help speed up the redevelopment. Beginning in 1930, the site was home to a 210,000 square-foot, state-of-the-art manufacturing facility for pleasure boats.

## CITY OF NEWPORT NEWS, VIRGINIA

### *Continental Automotive Systems*

During the summer of 2017, Continental Automotive Systems, a manufacturer of fuel injectors and pumps, was awarded a \$417,000 Port of Virginia Economic and Infrastructure Development Grant (POV Grant). The POV Grant is a one-time award for companies that locate or expand in the Commonwealth of Virginia, create jobs and spur economic growth within the region.

### *City Center at Oyster Point*

As of 2018, capital investment in City Center, a public-private partnership totals more than \$295 million, with a little less than 30% from the public sector. City Center currently offers over 1,000,000 square feet of mixed-use space for office, retail and entertainment uses, more than 600 units of luxury residential development, and a 256-room full-service Marriott hotel and conference center. The mixed-use nature of City Center provides employees working there a host of amenities, including the new Boathouse Live, a full-service restaurant, bar and live music venue. This new venue has a dynamic atmosphere that attracts both national and regional artists.

### *Corporate Research at Tech Center & Jefferson Lab Activity*

Jefferson Lab, a world-class national laboratory specializing in particle physics, has been present in Newport News for over 30 years. During that time, the Lab has won over \$3.2 billion in federal funding and made groundbreaking discoveries in nuclear physics. Jefferson Lab recently completed a \$400 million federally funded upgrade, tripling the power of the existing facility. The Lab has also begun early project development of an Energy Electron Ion Collider (EIC) in preparation to compete for a high-priority, next-generation Department of Energy multi-phased multi-billion dollar science initiative. This unique and important science asset, attracting over 1,600 international users annually, is a significant contributor to the local economy.

Adjacent to Jefferson Lab is the Tech Center Research Park, which upon completion will contain approximately 850,000 square feet of office and lab space, spread across 10 buildings, with an estimated 5,500 employees. Building One @ Tech Center, the first research office building is currently under construction and is expected to be completed near year-end 2018. The presence of a research center next to Jefferson Lab will provide immediate opportunities for collaboration between Jefferson Lab scientists and the private sector. In addition to the research park, the broader Tech Center development includes housing, retail, and commercial uses with the recent opening of Venture Apartments, a higher-end, 285-unit multifamily fully leased complex.

The provision of these amenities align with a growing trend of mixed-use research parks and will contribute toward the attraction of skilled workers to Newport News, benefitting both the researchers at Jefferson Lab and the companies occupying the corporate research center.

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### *Seafood Industrial Park*

Infrastructure improvement projects to increase capacity, commerce, and conditions at the City's Seafood Industrial Park (SIP) continued in 2018, with the help of over \$1 million in grant funds from the Virginia Port Authority (VPA) since 2016. Projects include the West Bulkhead replacement, completed during the summer of 2017, and improvements to piers and dolphin moorings at the SIP's Outer Harbor, completed in 2018.

### *Canon Virginia, Inc.*

Since 2013, Canon has made capital investments exceeding \$45 million and the company continues to invest in and make improvements to its Newport News facility. Newport News is Canon's only U.S. manufacturing headquarters, serving as the manufacturing, engineering, recycling and technical support center for all the Americas. During fall 2017, as part of Dominion Energy's Solar Partnership Program, Canon Virginia installed a major solar panel array capable of generating 1,000 kilowatts of energy, the amount of electricity needed to power 250 homes at peak level. Canon ushered in this new era of cleaner energy with a ribbon-cutting ceremony at its Newport News facility.

### *Other*

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

The City is more than 95% developed, with most of it built around automobile dependent forms of development. New urbanism and sustainable development, which seek to recreate more pedestrian-friendly neighborhoods, have been successfully implemented in Newport News with such projects as City Center, Tech Center, Port Warwick, Patrick Henry Place, and Huntington Pointe. Continuing to assist our existing businesses, helping to grow small business, and recreating the City will be increasingly important in order to enhance the City's quality of life, community and economic vitality.



## CITY OF NEWPORT NEWS, VIRGINIA

### LONG-TERM FINANCIAL PLANNING AND DEBT ADMINISTRATION

As required by the City Code, the City Manager submits a multi-year Capital Improvements Plan (CIP) to City Council, no later than November 1 of each year. The FY 2019 to FY 2023 Capital Improvements Plan was approved by City Council on January 23, 2018. The CIP reflects the vision and priorities of the City Council for the construction and maintenance of the buildings and infrastructure owned by the City. Although intended to be a commitment to a multi-year capital needs program, the CIP is fundamentally a planning document, subject to annual modification and amendment as changing priorities, availability of funding and other factors create the need for revision. Most projects in the CIP are funded by 20-year General Obligation Bonds issued by the City with level annual principal payments. The annual principal and interest payments (debt service) are budgeted in the City's annual operating budget. The General, Schools, Wastewater, Stormwater, and Solid Waste Funds each pay a proportionate share of principal and interest payments. The Waterworks Fund pays all of the debt service related to its capital projects. The FY 2019 Budget provides that the General Fund will pay 79%, or \$42 million, of the total debt service budget of \$53.3 million.

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

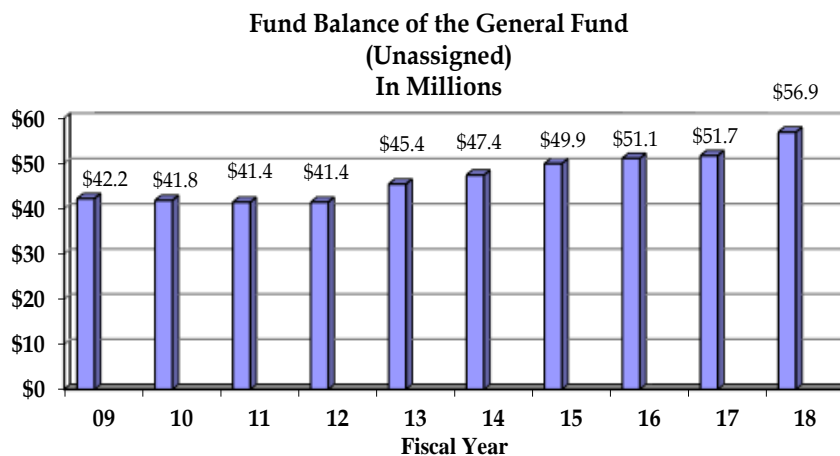
The following are the City's Capital Financing and Debt Management Policies:

- The goal of the City is to maintain its debt burden below 3.0%. Debt burden is defined as the ratio of outstanding general obligation debt and capital lease obligations to the total value of the taxable real and personal property. The projected FY 2019 debt burden is 2.5%.
- Debt service obligations are primarily funded from school and municipal revenues received through the Operating Budget. The City's informal policy is that the ratio of debt service obligations to General Fund revenue should not exceed nine and one-half percent (9.5%) in any fiscal year. For FY 2019 the ratio is projected to be 7.8%.
- The City's intent, when issuing new General Obligation debt or refinancing existing debt, is to structure principal payments so that at least thirty percent (30%) of the total outstanding debt is repaid within five years and that at least sixty percent (60%) is repaid within ten years. Currently 43% of the outstanding debt is scheduled to be paid in five years, with 74% paid in ten years.

## CITY OF NEWPORT NEWS, VIRGINIA

- So that the City may manage its debt capacity and remain within the parameters of its Capital Financing and Debt Management Policies, the City Manager provides the City Council with a thorough debt impact analysis on any proposed undertaking that requires financing through the issuance of short or long-term debt obligations, capital leases or debt guarantees.

During FY 2018, General Fund revenues exceeded expenditures by \$2.8 million. The unassigned General Fund balance totaled \$56.9 million at June 30, 2018, or approximately 12.1% of annual General Fund revenues.



Since the recession began in September 2008, the real estate property tax base has experienced a decline of almost \$2 billion in assessments, resulting in a cumulative reduction in real estate tax revenue of over \$20 million for the same time period. Fortunately, this loss was lower than some segments of the nation, but is consistent with nationwide decline in home prices and the lower market value of real estate. The revenue from Real Estate Taxes trended lower between FY 2009 and FY 2014, but was level for FY 2015, with slight increases in FY 2016 and FY 2017. FY 2018 showed growth in assessments, indicating stabilization of the housing markets as well as new construction projects that are scheduled to be completed in the upcoming fiscal year.

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

The financial outlook for Fiscal Year 2018-2019 is stable with moderate revenue growth expected due to continued post-recession recovery coupled with potential new economic development, and separately, continued cost-saving efforts. We feel that current management initiatives, along with prudent long-range strategic and comprehensive planning, will enable

## CITY OF NEWPORT NEWS, VIRGINIA

the City to generate sufficient resources to meet future service demands, maintain a stable financial position, protect the City's high credit rating, and maintain realistic and affordable tax burdens on the citizens.

### **SIGNIFICANT STRATEGIC PRIORITY ACCOMPLISHMENTS FOR FY 2018**

Of all of the significant accomplishments and initiatives undertaken or completed during the year ended June 30, 2018, some of the more significant are listed below.

#### *Operational Efficiencies and Fiscal Management*

- In May 2017, the financial rating agency Moody's upgraded the Waterworks revenue bond rating from Aa2 to Aa1, which is Moody's second highest rating. As indicated in the Moody's credit opinion, "the Aa1 rating reflects solid debt service coverage levels, satisfactory liquidity, low debt burden and a stable regionally important service area." Other strengths identified include Waterworks' formalized financial policies and capital planning strategy. Standard & Poor's ("S&P") re-affirmed the Waterworks revenue bond rating at AAA, S&P's highest bond rating. The S&P rating "reflects the rating agency's opinion of the combination of a very strong enterprise risk profile and an extremely strong financial risk profile. Factors driving the positive assessment of creditworthiness include a robust service area economy, a history and projection of annual rate adjustments with a focus on decreasing reliance on volumetric consumption driven revenue, management."
- In May 2017, the financial ratings agency Standard & Poor's (S&P) reaffirmed the City's long-term credit rating of AA+, which is S&P's second highest rating. A second rating agency, Moody's, also reaffirmed the City's Aa1 rating, the second highest they offer. A strong credit rating makes it easier for borrowers to gain access to capital, usually at a lower interest rate. Standard & Poor's assessed the City's outlook as stable noting, "The stable outlook reflects our view of Newport News' very strong fiscal management, which we believe has contributed to strong reserve and liquidity position." S&P also noted "the City's budgetary performance and debt profile will remain stable given the City's adherence to historical practices of adopting structurally balanced budgets..."
- In February 2018, the City hosted a Smart Cities Readiness Workshop to explore how implementing smart cities technologies in our region can make Newport News a better place to live and work. More than 125 participants from private and public sectors across the region generated ideas around open data, public/private partnerships, smart utilities, emergency management, transportation, and public safety.

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

- In conjunction with the Newport News Redevelopment and Housing Authority (NNRHA) and numerous partners, the City completed the Choice Neighborhoods

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Initiative (CNI) planning process for the Marshall-Ridley area. The *Marshall-Ridley Choice Neighborhood Transformation Plan* was adopted by City Council in June 2018 and accepted by U.S. Department of Housing and Urban Development (HUD) in August 2018. The CNI team has transitioned from planning to implementation of several critical community improvements including a multi-modal trail and a co-working space for small business entrepreneurs. An application for the FY18 CNI Implementation Grant was submitted in September 2018. The request is for \$30 million which would support the implementation of the Transformation Plan. CNI provides competitive grants to rebuild both public and assisted housing into mixed-income communities by bringing together local leaders, residents and a vast array of other stakeholders. Together, the group works to transform distressed housing into neighborhoods of opportunity.

- The *One City, One Future Comprehensive Plan* was adopted by City Council on August 14, 2018. The comprehensive plan is the City's adopted land use policy document and serves as the general guide for future investment in and development of Newport News for the next 20 years. Significant citizen input informed and guided the development of the plan.
- The planning process for the Denbigh-Warwick Area Plan kicked off in spring 2018. WRT is a planning and design firm that is facilitating the public engagement process and development of the area plan. The objective of the Denbigh-Warwick Area Plan is to establish a comprehensive long-range vision and strategies to stabilize the community and attract new investment. Data collection, including a community survey, will continue through the end of the calendar year.
- In December 2017, the \$16.7 million project to replace the Lee Hall Dam was complete, bringing the dam into compliance with new safety regulations enacted by the Commonwealth. The investment in this critical infrastructure will provide many years of protection to the Peninsula's water supply and flood protection for downstream properties.
- Installation of approximately 29,000 feet of 24-inch finished water pipeline was completed to connect the Waterworks distribution system at Hubbard's Lane/Penniman Road to the Lightfoot Area of York County. Completion of this project is essential to the ability to deliver treated water to Lightfoot once the well system is taken offline. York County participated in this project and contributed 50% toward its total cost.
- The City secured State Revenue Sharing Program allocations totaling \$7.6 million. Major Projects supported by these funds include Warwick Boulevard over Lake Maury Bridge Replacement, Jefferson Avenue Streetscape Improvements, Campbell Road Improvements, Hogan Drive extension and Haberham Area Improvements.
- The City broke ground on the new Atkinson Boulevard, a 4-lane roadway between Warwick Boulevard and Jefferson Avenue. This \$68 million roadway project is 93%

## CITY OF NEWPORT NEWS, VIRGINIA

funded with State and Federal funds and will help reduce pollution and improve travel times in the Denbigh area.

### *Environmental Stewardship and Sustainability*

- The StormSense project has garnered Newport News and its multiple regional partners seven awards this year. The project utilizes 34 bridge-mounted water level sensors in Newport News, Norfolk and Virginia Beach to gather tidal data to enhance emergency preparedness for flooding resulting from storm surge, rain, and tides. Initially funded by the National Institute of Standards and Technology via a Replicable Smart City Technologies grant, the sensors are integrated with other model technologies and will aid in improving flood predictions throughout the lower Chesapeake Bay.
- The City received a \$342,000 grant from the Department of Defense, Office of Economic Adjustment in 2017 to facilitate preparation of the Joint Base Langley-Eustis Joint Land Use Study (JLUS). The Department of Planning administered the grant which funded an update to the Hampton-Langley JLUS and preparation of the Fort Eustis JLUS. This collaborative study, which identifies compatible land uses and growth management guidelines near the installation, was adopted by Newport News City Council in April 2018. James City County and York County also adopted the Fort Eustis JLUS in summer 2018.
- The City fleet continues to expand its alternative fuel program and currently has 60 propane-powered vehicles. These vehicles have saved over \$800,000 in fuel expense and prevented 213.4 metric tons of air pollution.

### *Public Safety*

- The Newport News Police Department (NNPD) launched NNPD Online, its online reporting system in July of 2017. This web-based citizen incident reporting solution, which integrates with the existing records management system (RMS), eliminates the need for our officers to respond to certain No-Suspect/No-Lead/No-Injury incidents and allows citizens to go online at their leisure and file a police report for certain non-violent crimes. All reports entered online are reviewed, assigned for follow-up or submitted into our RMS just as a report from a police officer in the field would be handled. To date, citizens have entered 147 reports ranging from "Annoying Phone Calls" to "Theft of Motor Vehicle Parts" into NNPD Online.
- Earlier this year, the cities of Newport News and Hampton teamed up on a joint purchase of the National Integrated Ballistic Information Network (NIBIN) system - a national database of digital images of spent bullets and cartridge cases that were found at crime scenes or test-fired from confiscated weapons. A firing station has been set up at the Newport News Property and Evidence building for the purpose of test-firing handguns and recovering the cartridge cases for correlation. We are the first

## CITY OF NEWPORT NEWS, VIRGINIA

departments in the State of Virginia to operate an independent NIBIN Station which allows us to have the firearms tested, the test-fires correlated, and results input directly into the national database in a few weeks from the time we receive it. Previously, it could take up to a year to get results back from the state labs due to the volume of submissions from all Virginia localities.

- A group of approximately 12 police and fire personnel were trained and outfitted to form the new joint Drone Response Team. The team provides mission support for Tactical Operations Unit activations, missing/endangered juveniles and adults, fleeing suspects, search warrant surveillance, crash scene photography, crime scene photography, arson scene photography, structure fires, damage assessment, natural disasters, and any situation requiring aerial support that threatens the life of any person. All Drone Response Team members are FAA certified remote pilots. A combination of grant funds, asset forfeiture funds and local funds were used to purchase the drones, cameras and associated hardware. The real-time streaming equipment allows off-site command personnel to watch the drones' video feed to make real-time decisions without having to be on-site.
- The Newport News Fire Department (NNFD) Training Division received accreditation from the Virginia Office of Emergency Medical Services to teach the Advanced Emergency Medical Technician course. The accreditation allows the Fire Department to teach the curriculum to new Recruits rather than pay for tuition through the Virginia Community College System. The ability to teach the curriculum "in-house" saves approximately \$5,000 per student in lieu of tuition at the Community College (\$150,000 for a class of 30) and affords the Department more flexibility in scheduling and pace for the classes.

### *Other Community and Citizen Services*

- New artistic outdoor murals for W. Hale Thompson (a local attorney and civil rights activist) and Pearl Bailey (internationally recognized entertainer and Newport News native) were installed in the Southeast Community as part of the City's ongoing outdoor art program. With nearly three dozen pieces of public art scattered throughout the City, Newport News offers a museum without walls for residents and visitors to enjoy.
- The City once again produced a wide variety of top quality special events in FY18 including the 4<sup>th</sup> of July *Stars in the Sky*, *Children's Festival of Friends*, *Fall Festival*, *Hollydazzle*, *Celebration in Lights*, *One City Marathon*, *World Arts Celebration* and others. Over 600,000 people attended these special events.

## CITY OF NEWPORT NEWS, VIRGINIA

- Newport News Public Libraries (NNPL) launched eCards in May 2018, allowing new patrons to sign up for a library card online. eCard holders receive immediate access to online resources such as databases and downloadable content (e-books, e-audiobooks, e-magazines, and music downloads) without having to step foot in a library branch. NNPL saw 824 eCard signups in May and June of 2018 and an overall 10% increase in new cardholders in FY18.
- NNPL opened the Creative Corner at Main Street Library, a maker space that provides access to a 3D printer, sewing machines, and cutting machines so that patrons may design and create paper crafts and textile art.
- Pearl Bailey Library received two grants from the Young Adult Library Services Association/Dollar General Literacy Foundation to create paid internship opportunities for local teens and offer teen programming.
- NNPL program attendance has jumped 49% in FY18, demonstrating that public libraries remain a vital and relevant community service, providing experiences that promote learning, discovery, and exploration.
- The Historic Hilton Village and the U.S. Army's Fort Eustis both celebrated centennial anniversaries in 2018. Hilton Village held a year-long celebration with related activities, events and programs spread out from January to December all across the City. Fort Eustis also held several events recognizing and celebrating its 100th anniversary.
- On July 1, 2017, Waterworks initiated a customer assistance program named Local Interventions for Financial Empowerment through Utility Payments (LIFT-UP). The program provides financial education and training through a third party to assist certain qualified customers in budgeting for their utility bill. The primary goal of the program is to provide financial education and training to customers who are experiencing severe difficulty in staying current on their utility bills. The program consists of a one-on-one review of the participants' specific financial health and circumstances and four hours of classroom training in topics including Managing Your Money, Banking, and Managing and Maintaining Your Credit. Participants work with a counselor to establish payment plans for current and past due amounts that align better with their financial means.
- The Newport News Department of Human Services (NNDHS) serves the neediest citizens and is best known for administering public welfare benefit programs, child protective services (CPS), foster care, and adult protective services (APS). Virginia Department of Social Services (VDSS) FY2017 data indicates NNDHS provided benefits as follows: Supplemental Nutrition Assistance (SNAP), Temporary Assistance for Needy Families (TANF) and Medicaid to approximately 60,647 individuals; Energy Assistance to 5,709 households, and Child Care assistance to 1,185 families. The total amount of Federal, State, and Local funds spent on Social Services programs was \$345.5 million including approximately \$11.1 million contributed by the City. The majority of



## CITY OF NEWPORT NEWS, VIRGINIA

these funds, \$319.2 million, were provided to citizens in the form of benefits and returned to the community through the purchase of goods and services.

- During FY2018, 51 foster children achieved permanency status through adoption, reunification with families, or custody transfer to other relatives.
- During FY2018, the Maternal, Infant, Early Childhood Home Visiting (MIECHV) program served 88 families and 127 children with \$402,499 in federal grant funds from the Virginia Department of Health. 445 resources were provided to families and 94 children completed developmental and health screenings. Five “Parents as Teachers” participants were certified in CPR and First Aid. Eight families (with 17 children receiving service) participated and received ident-a-kid cards.
- During FY2017, The Children’s Services Act (CSA) funds provided assistance to support 328 children for placement in residential facilities, group homes, foster homes, independent living arrangements, and special education private day services. Community-based services received included Applied Behavioral Analysis (ABA) therapy, intensive in-home therapy and mentoring.
- The NNDHS received a 3-year grant for the *Elevate* Pilot Program from the United States Department of Agriculture (USDA) Food and Nutrition Service (FNS) for SNAP E&T recipients focused on training and employment of 18-to-49-year-old “Able Bodied Adults Without Dependents” (ABAWDS). Newport News exceeded their recruitment goal. Working with community partners including community colleges, the agency served 713 SNAP participants by providing training and employment services over the life of this pilot program.
- The Prevention and Self Sufficiency Services Bureau’s Youth Services Unit offers a continuum of services that strengthens youth, families, and the community through intensive wrap-around case management, youth development, and community outreach efforts. In FY2018, Youth Services facilitated and collaborated in over 122 events/programs and, through those activities, impacted approximately 3,711 youth and 2,800 adults. Services provided included: case management through the TOP (Teamwork, Options, Pathways for Success) program, civic engagement and community services through the Mayor’s Youth Commission, and recommendations for youth appointments to the Public Library Board of Trustees, Human Rights Commission, and the Arts Commission. Youth services also received an \$8,000 Education and Prevention Grant from Virginia Alcohol Beverage Control to educate youth on the effects of underage drinking.

## CITY OF NEWPORT NEWS, VIRGINIA

### Awards

The City of Newport News' Recovery Operations Center earned a Pollution Prevention (P2) Diamond Excellence Award from Hampton Roads Sanitation District (HRSD) for 2017 for 12 consecutive years of perfect permit compliance of its landfill leachate disposal system. The award recognizes the facility for having no spills, maintaining pH level at the appropriate levels, maintaining the collection station, and submitting all required paperwork within the deadlines. HRSD considers recipients of these awards to have demonstrated a commitment to environmental excellence.

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Newport News for its comprehensive annual financial report (CAFR) for the year ended June 30, 2017. This was the 39th consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for the City's 40<sup>th</sup> consecutive certificate.

### Acknowledgments

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

Respectfully submitted,

  
Cynthia D. Rohlf  
City Manager

  
Susan M. Goodwin  
Director of Finance

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

### **CITY GOVERNMENT OFFICIALS (at June 30, 2018)**

#### **City Council**

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

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

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

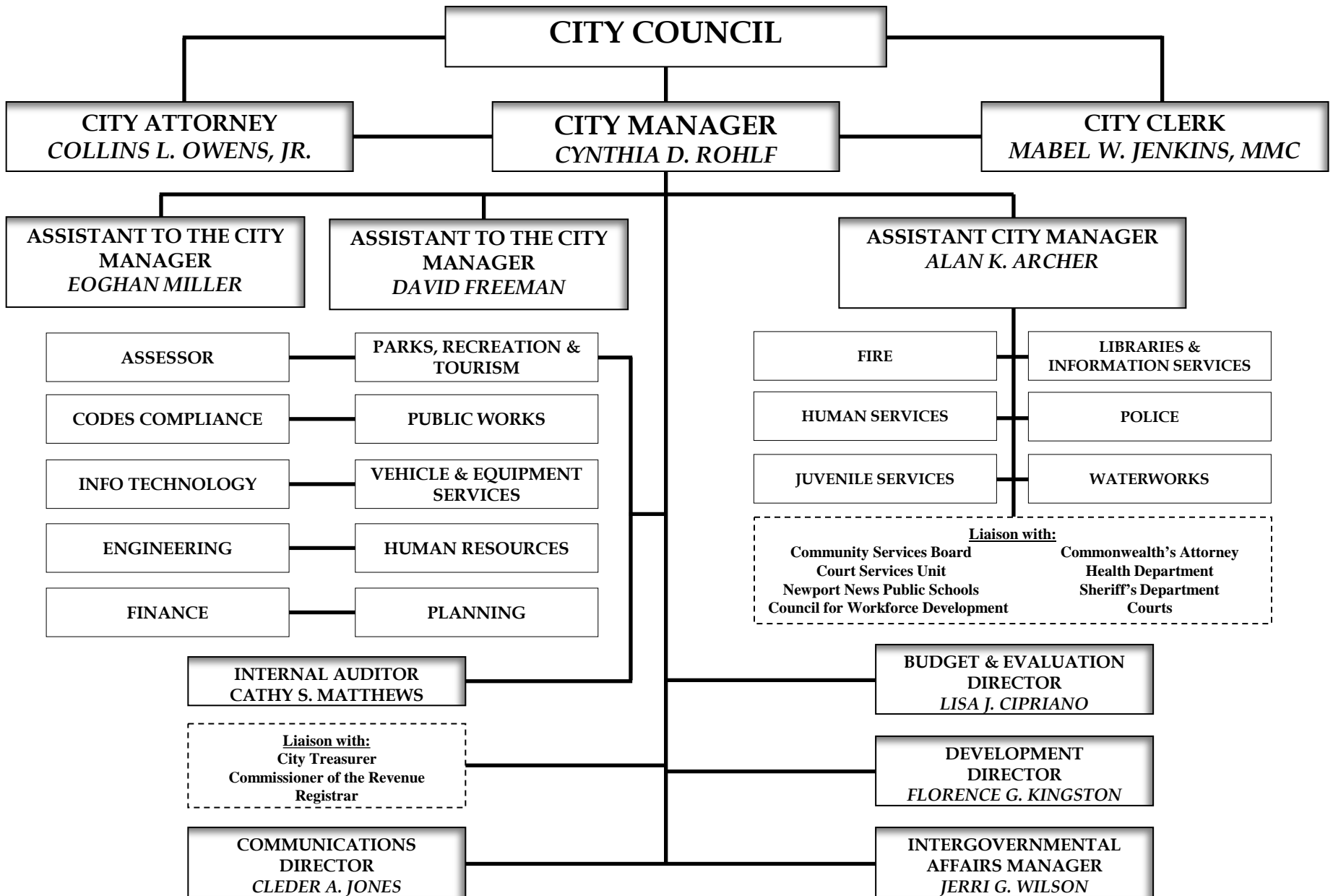
#### **Department of Finance**

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

#### **Other Officials**

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

Councilman Bateman's term on City Council ended on June 30, 2018. Subsequently, Councilman David Jenkins was elected to the City Council, effective July 1, 2018.





Government Finance Officers Association

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

Presented to

**City of Newport News  
Virginia**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2017**

*Christopher P. Morill*

Executive Director/CEO

## **Report of Independent Auditor**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newport News, Virginia (the "City"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Peninsula Airport Commission, which represents 20.18% of the respective assets, 11.18% of the respective revenues, and 98.36% of the respective net position of the aggregate discretely presented component units. Those financial statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as they relate to the amounts included for the Peninsula Airport Commission, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newport News, Virginia, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis-of-Matter**

As discussed in Note 1 (O) to the basic financial statements, the City implemented the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective July 1, 2017. Our opinions are not modified with respect to this matter.

**Other Matters****Required Supplementary Information**

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

**Other Information**

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

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

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance



Richmond, Virginia  
November 21, 2018



**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, 2018 (FY 2018). This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which have the following components: (1) management's discussion and analysis (MD&A), (2) government-wide financial statements, (3) fund financial statements, and (4) notes to the financial statements.

**FINANCIAL HIGHLIGHTS FOR FY 2018**

At the end of the fiscal year, the City's governmental activities' assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$199.4 million. This amount represents an increase of \$51.1 million or 34.5%, over prior year's ending balance of \$148.3 million, which was restated to reflect the implementation of Governmental Accounting Standards Board's Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (Statement No. 75) which requires the City to report the related actuarial liability on the Statement of Net Position for the OPEB in addition to requiring more extensive note disclosures and required supplementary information (RSI) about the OPEB liabilities.

**General Fund**

- At the close of FY 2018, unassigned fund balance for the General Fund was \$56.9 million or 12.1% of FY 2018 total General Fund revenues and transfers in.
- General Fund revenues and transfers increased \$9.6 million or 2.1% above FY 2017, due to an increase in general taxes, primarily real property taxes. Expenditures and transfers out increased \$4.1 million, .9% higher than the prior fiscal year. FY 2018 expenditures and transfers out were 1.9% less than budget.
- The City's real estate tax rate of \$1.22 per \$100 of assessed valuation remained unchanged for FY 2018. The tax rate on personal property of \$4.50 per \$100 of assessed valuation, also remained unchanged.

**Governmental Activities**

- Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at June 30, 2018, by \$199.4 million. Of this amount, \$28.0 million was restricted.
- The City's total bonded debt decreased by approximately \$33.3 million during the current fiscal year due to related principal payments.

# CITY OF NEWPORT NEWS, VIRGINIA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OVERVIEW OF THE FINANCIAL STATEMENTS

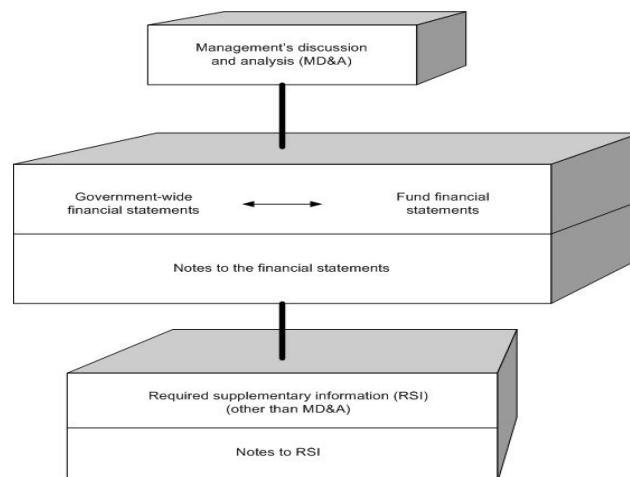
The City's basic financial statements comprise three components: *government-wide financial statements*, *fund financial statements*, and *notes to the financial statements*. This report also contains required other supplementary information sections in addition to the basic financial statements themselves.

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

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

**Figure A**

### Required Components of Newport News' Financial Statements



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

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

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

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

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

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

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

#### **Fund Financial Statements**

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

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

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

The City has three types of funds:

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

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

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

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

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

**Statement of Net Position**

The following table reflects the condensed net position:

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

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2018</b>	<b>2017*</b>	<b>2018</b>	<b>2017*</b>	<b>2018</b>	<b>2017*</b>
Current and other assets	\$ 237.9	255.2	121.1	118.9	359.0	374.1
Capital assets, net	771.5	739.8	412.5	407.3	1,184.0	1,147.1
Total assets	<u>1,009.4</u>	<u>995.0</u>	<u>533.6</u>	<u>526.2</u>	<u>1,543.0</u>	<u>1,521.2</u>
Deferred outflows of resources	<u>51.2</u>	<u>91.1</u>	<u>7.8</u>	<u>12.2</u>	<u>59.0</u>	<u>103.3</u>
Current and other liabilities	113.9	114.1	38.4	44.4	152.3	158.5
Long-term liabilities	740.1	822.5	169.8	183.4	909.9	1,005.9
Total liabilities	<u>854.0</u>	<u>936.6</u>	<u>208.2</u>	<u>227.8</u>	<u>1,062.2</u>	<u>1,164.4</u>
Deferred infows of resources	<u>7.2</u>	<u>1.2</u>	<u>0.5</u>	<u>-</u>	<u>7.7</u>	<u>1.2</u>
Net position:						
Net investments in capital assets	434.5	403.5	321.6	312.2	756.1	715.7
Restricted	28.0	19.7	-	-	28.0	19.7
Unrestricted (Deficit)	(263.1)	(274.9)	11.1	(1.6)	(252.0)	(276.5)
Total net position	<u>\$ 199.4</u>	<u>148.3</u>	<u>332.7</u>	<u>310.6</u>	<u>532.1</u>	<u>458.9</u>

\*Balances were restated to reflect implementation of GASB 75.

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

Approximately 5.3% of the City's net position is subject to external restrictions, mostly for the use of bond proceeds.

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

**Governmental Activities**

Net position of the City's governmental activities increased from \$148.3 million (restated) at June 30, 2017 to \$199.4 million at June 30, 2018 as a result of the excess of revenues over expenses for FY 2018 of \$51.1 million as shown on the Statement of Activities (Table 2 following). This increase is primarily due to a decrease in the City's long-term liabilities of \$83.3 million offset by a change in deferred pension experience loss and contributions of \$30.0 million.

**Business-type Activities**

The City's public utility (Waterworks) is an enterprise operation. The net position of Waterworks increased from \$310.6 million (restated) to \$332.7 million, as a result of excess revenues over expenses for FY 2018. The City uses the net position of the enterprise fund to finance the continuing operations of its Waterworks operation.

**Statement of Activities**

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

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

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Revenues:						
Program revenues:						
Charges for services	\$ 87.2	85.8	99.4	92.0	186.6	177.8
Operating grants and contributions	39.1	40.9	-	-	39.1	40.9
Capital grants and contributions	30.4	17.0	-	-	30.4	17.0
General revenues:						
Property taxes	265.6	261.2	-	-	265.6	261.2
Other taxes	105.5	103.9	-	-	105.5	103.9
Grants and contributions not restricted to specific programs	46.1	44.5	4.0	2.3	50.1	46.8
Investment earnings	4.3	3.1	1.0	0.5	5.3	3.6
Miscellaneous	14.3	12.4	1.5	1.1	15.8	13.5
Total revenues	<u>592.5</u>	<u>568.8</u>	<u>105.9</u>	<u>95.9</u>	<u>698.4</u>	<u>664.7</u>
Expenses:						
General government	99.7	110.2	-	-	99.7	110.2
Judicial administration	8.0	8.1	-	-	8.0	8.1
Public safety	123.7	129.0	-	-	123.7	129.0
Public works	76.4	85.6	-	-	76.4	85.6
Health and welfare	45.4	44.8	-	-	45.4	44.8
Education	132.5	138.9	-	-	132.5	138.9
Parks, recreation and culture	33.8	35.2	-	-	33.8	35.2
Community development	11.3	11.2	-	-	11.3	11.2
Public utility	-	-	74.3	67.6	74.3	67.6
Interest and other fiscal charges	20.1	19.9	-	-	20.1	19.9
Total expenses	<u>550.9</u>	<u>582.9</u>	<u>74.3</u>	<u>67.6</u>	<u>625.2</u>	<u>650.5</u>
Excess before transfers	41.6	(14.1)	31.6	28.3	73.2	14.2
Transfers	9.5	9.5	(9.5)	(9.5)	-	-
Change in net position	51.1	(4.6)	22.1	18.8	73.2	14.2
Beginning net position*	148.3	152.9	310.6	291.8	458.9	444.7
Ending net position	<u>\$ 199.4</u>	<u>148.3</u>	<u>332.7</u>	<u>310.6</u>	<u>532.1</u>	<u>458.9</u>

\*Balances were restated to reflect implementation of GASB 75.

## CITY OF NEWPORT NEWS, VIRGINIA

### MANAGEMENT’S DISCUSSION AND ANALYSIS

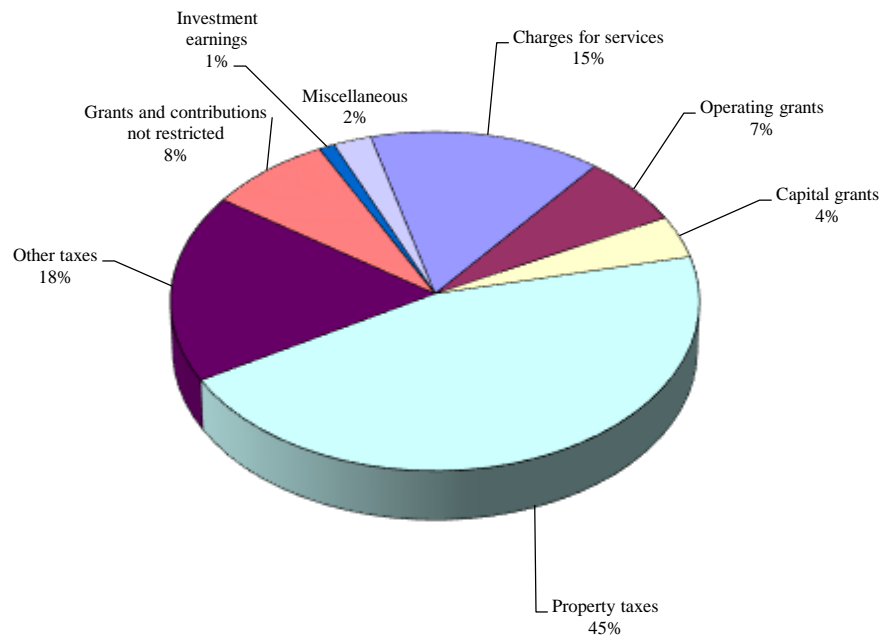
#### Governmental Activities

The City’s total revenues from governmental activities were \$592.5 million for the fiscal year ended June 30, 2018. The largest source of revenue (\$265.6 million for FY 2018) is real estate and personal property taxes. The City’s assessed real property tax base for FY 2018 increased 1.7%.

Approximately 62.6% of the City’s revenue from governmental activities comes from some type of tax and 14.7 % comes from fees charged for services.

The City’s expenses cover a wide range of services, with 22.5%, or \$123.7 million, for FY 2018 related to public safety and 24.1%, or \$132.5 million, for FY 2018 for education (payments to the Schools component unit).

#### Revenues by Source – Governmental Activities

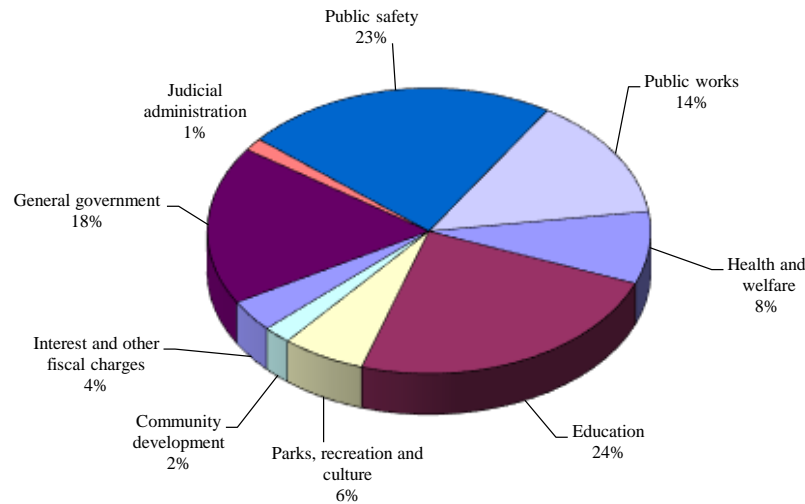


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# CITY OF NEWPORT NEWS, VIRGINIA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Expenses – Governmental Activities



### Business-type Activities

The net position for the City's business-type activities increased by \$22.1 million as a result of revenues exceeding the expenses of the operations. Charges for services make up 93.9% of total revenues for the City's business-type activities.

### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

#### General Fund

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the General Fund fund balance was \$94.7 million of which \$56.9 million represents an unassigned fund balance. As a measure of the General Fund's liquidity, it is useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 12.2% of the total fund expenditures (12.1% of total revenues), while total fund balance represents 20.3%.

#### Debt Service Fund

The Debt Service Fund has a fund balance of \$2.3 million. During FY 2018, the fund balance increased by \$0.2 million.

#### Bond Fund

The Bond Fund accounts for the proceeds of general obligation bond issues, except those of the Proprietary Funds. The Bond Fund fund balance decreased from \$55.6 million at June 30, 2017 to \$20.7 million at June 30, 2018 due to ongoing construction projects.



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

**Capital Projects Other Federal and State Fund**

The Capital Projects Other Federal and State Fund accounts 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. During FY 2018, the fund balance increased by .7 million.

**Proprietary Funds**

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

**GENERAL FUND BUDGETARY HIGHLIGHTS**

**General Fund (Budget Basis)**  
**Fiscal Year 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budget Basis)</u>
Revenues:			
Taxes	\$ 373,956,048	373,956,048	371,602,565
Intergovernmental	44,542,106	44,542,106	46,117,575
Other	56,925,098	56,925,098	52,359,252
Total	<u>475,423,252</u>	<u>475,423,252</u>	<u>470,079,392</u>
Expenditures and Transfers:			
Expenditures	428,134,620	428,134,620	418,633,568
Transfers out	47,288,632	47,288,632	47,643,371
Total	<u>475,423,252</u>	<u>475,423,252</u>	<u>466,276,939</u>
Change in fund balance	\$ <u>-</u>	<u>-</u>	<u>3,802,453</u>

Actual General Fund revenues and transfers from other funds were below the final budgeted revenues by \$5.3 million primarily due to a planned elimination of budgeted use of fund balance. Expenditures were under budget by \$9.5 million due to spending restraints put in place during the fiscal year and transfers out were over budget by \$.4 million due to an increase in capital project transfers.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2018, totaled \$1,184.0 million (net of depreciation). This investment includes land, buildings and improvements, drainage and water/sewer systems, machinery and equipment, roads, bridges, and construction in progress.

Construction in progress totaled \$81.2 million for governmental activities at the end of FY 2018 (including certain Public Schools projects under construction).

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

Construction in progress totaled \$5.7 million for business-type activities at the end of the fiscal year including the following projects: Infrastructure improvements, \$1.4 million; Asset Management Software, \$1.1 million, Harwoods Mill clarifier basins rehabilitation, \$.98 million and SAP E-billing System, \$.64 million.

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

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 91,938,576	90,967,134.00	8,336,904	8,336,985	100,275,480	99,304,119
Construction in progress	81,150,036	66,266,305	5,663,368	33,470,744	86,813,404	99,737,049
Buildings	231,724,797	216,644,534	87,988,008	91,635,918	319,712,805	308,280,452
Water systems	-	-	292,744,046	256,999,612	292,744,046	256,999,612
Improvements	102,633,983	109,303,286	7,582,432	8,371,366	110,216,415	117,674,652
Machinery and equipment	49,549,985	50,870,740	10,178,324	8,468,164	59,728,309	59,338,904
Infrastructure	214,492,822	205,735,092	-	-	214,492,822	205,735,092
	<u>\$ 771,490,199</u>	<u>739,787,091</u>	<u>412,493,082</u>	<u>407,282,789</u>	<u>1,183,983,281</u>	<u>1,147,069,880</u>

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

**Long-Term Debt**

At the end of the current fiscal year, the City had total outstanding debt (including literary loans) of \$450.5 million, a decrease of 9.1% from last year, as shown in the table below. Capital leases, landfill liability, accrued vacation, net pension obligations, other postemployment benefit obligations and claims payable are not included in these figures.

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

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 341.5	374.8	50.0	60.4	391.5	435.2
Literary loans	3.8	4.2	-	-	3.8	4.2
Revenue bonds	-	-	55.2	56.1	55.2	56.1
Total	<u>\$ 345.3</u>	<u>379.0</u>	<u>105.2</u>	<u>116.5</u>	<u>450.5</u>	<u>495.5</u>

The amount of the debt outstanding related to School Board activities is \$62.5 million of the total outstanding general obligation bonds of the governmental activities.

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

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

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

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

The unemployment rate in June 2018 for the City was 4.2%, which is a decrease from the average for 2017 of 4.9%, and is consistent with other areas of the Commonwealth. The City's annual population decreased from approximately 181,825 at the end of fiscal year 2017 to 179,388 at the end of fiscal year 2018 according to US Census estimates.

The FY 2019 approved revenue budget for the General Fund increased by .1% compared to the FY 2018 adopted budget. The FY 2019 budget includes allocations for 7,296 positions (including schools), a net increase of 4 positions from the FY 2018 budget.

City management makes the City's financial strength a top priority through adherence to sound financial policies and conservative budgeting practices. The Newport News economy continues to improve with growth in real estate assessments. Strategic focus areas include providing the capital assets required to maintain City assets and operations in an environmentally friendly way, providing the funding to Schools for improvement in educational opportunities for students, promoting opportunities for economic development and job creation, and maintaining a motivated and service focused workforce.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

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**CITY OF NEWPORT NEWS, VIRGINIA**  
Statement of Net Position  
June 30, 2018

Assets	Primary Government			Discretely presented component units	
	Governmental activities	Business-type activities	Total	Public schools	Others
Cash and cash equivalents	\$ 119,787,616	64,807,019	184,594,635	53,597,428	10,046,158
Restricted cash and investments	32,496,452	23,007,736	55,504,188	-	18,995,515
Accounts receivable, net	25,793,927	15,629,712	41,423,639	768,731	14,116,256
Receivable from Industrial Development Authority	10,155,757	-	10,155,757	-	-
Receivable from Primary Government	-	-	-	7,226,810	-
Receivables from other governments	37,112,190	-	37,112,190	8,755,735	-
Due from Pension Fund	790,987	-	790,987	-	-
Due from OPEB Fund	129,206	-	129,206	-	-
Inventory, at cost	2,075,770	3,307,694	5,383,464	1,655,974	55,948
Land held for lease or resale	-	7,102,444	7,102,444	-	29,829,093
Wetlands credits	-	5,530,135	5,530,135	-	-
Net pension asset	7,358,516	520,151	7,878,667	1,488,925	-
Capital assets:					
Nondepreciable capital assets:					
Land	91,938,576	8,336,904	100,275,480	2,896,704	6,604,658
Construction in progress	81,150,036	5,663,368	86,813,404	-	8,432,746
Depreciable capital assets:					
Buildings	366,261,502	152,155,622	518,417,124	73,391,826	201,593,974
Improvements	219,832,980	-	219,832,980	80,259,454	19,595,505
Water system	-	493,930,232	493,930,232	-	-
Airport assets	-	-	-	-	181,633,731
Machinery and equipment	175,593,261	42,067,917	217,661,178	67,614,176	6,546,277
Infrastructure	581,913,845	-	581,913,845	-	2,543,500
Total capital assets	1,516,690,200	702,154,043	2,218,844,243	224,162,160	426,950,391
Less accumulated depreciation	(745,200,001)	(289,660,961)	(1,034,860,962)	(122,506,585)	(167,794,971)
Capital assets, net	771,490,199	412,493,082	1,183,983,281	101,655,575	259,155,420
Restricted assets:					
Permanently restricted cash	2,277,296	-	2,277,296	-	-
Other assets	-	1,235,000	1,235,000	10,315,287	195,869
Total assets	1,009,467,916	533,632,973	1,543,100,889	185,464,465	332,394,259
<b>Deferred Outflows of Resources</b>					
Employer contributions subsequent to the measurement date	40,136,912	4,905,128	45,042,040	40,487,695	254,739
Net difference between projected and actual earnings on plan investments	1,206,061	134,577	1,340,638	275,023	-
Difference in proportion and difference between employer contributions and proportionate share of contributions:	497,260	31,740	529,000	121,000	-
Changes in assumptions	-	-	-	14,642,396	-
Difference between expected and actual experience	-	-	-	12,939	93,752
Debt refundings resulting in loss transactions	9,400,839	2,632,948	12,033,787	-	4,915,179
Total deferred outflows	51,241,072	7,704,393	58,945,465	55,539,053	5,263,670
<b>Liabilities</b>					
Accounts payable	25,829,340	3,942,460	29,771,800	2,491,634	1,581,064
Accrued liabilities	14,958,904	4,844,387	19,803,291	28,238,669	430,530
Deposits	3,735,579	-	3,735,579	-	29,573
Unearned revenues	237,143	29,609,055	29,846,198	105,575	-
Payable to Newport News Public Schools	7,226,810	-	7,226,810	-	-
Payable to Primary Government	-	-	-	-	10,155,757
Long term liabilities:					
Due within one year	61,939,211	13,462,800	75,402,011	4,959,619	11,297,639
Due in more than one year	740,107,802	156,317,884	896,425,686	479,510,622	92,437,082
Total liabilities	854,034,789	208,176,586	1,062,211,375	515,306,119	115,931,645
<b>Deferred Inflows of Resources</b>					
Property taxes collected in advance	1,058,558	-	1,058,558	-	-
Net difference between projected and actual earnings on plan investments	3,070,594	374,604	3,445,198	10,172,194	110,761
Difference between expected and actual experience	687,875	43,907	731,782	18,048,902	4,000
Changes in assumptions	2,409,688	76,653	2,486,341	1,105,835	888,875
Changes in proportionate share	-	-	-	5,987,000	12,000
Deferred contribution to City - AHTIC	-	-	-	4,929,503	-
Deferred grant proceeds	-	-	-	3,177,372	-
Total deferred inflows	7,226,715	495,164	7,721,879	43,420,806	1,015,636
<b>Net Position</b>					
Net investment in capital assets	434,506,011	321,533,379	756,039,390	83,735,916	170,016,237
Restricted for:					
Capital projects	1,802,608	-	1,802,608	50,981	17,275,303
Debt service	2,277,296	-	2,277,296	-	1,601,771
Grants	2,090,306	-	2,090,306	-	-
Other governmental purposes	21,832,152	-	21,832,152	14,402,287	-
Unrestricted (deficit)	(263,060,889)	11,132,237	(251,928,652)	(415,912,591)	31,817,337
Total net position	\$ 199,447,484	332,665,616	532,113,100	(317,723,407)	220,710,648

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**

Statement of Activities  
Year ended June 30, 2018

	Expenses	Program revenues			Net (expense) revenue and changes in net position				
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Primary Government Business-type activities	Total	Public schools	Other component units
Primary Government:									
Governmental activities:									
General government	\$ 99,745,558	13,856,603	-	30,410,059	(55,478,896)	-	(55,478,896)		
Judicial administration	7,996,313	2,245,116	421,759	-	(5,329,438)	-	(5,329,438)		
Public safety	123,683,767	5,977,825	2,761,917	-	(114,944,025)	-	(114,944,025)		
Public works	76,410,545	57,160,432	17,099,364	-	(2,150,749)	-	(2,150,749)		
Health and welfare	45,434,568	224,946	6,096,329	-	(39,113,293)	-	(39,113,293)		
Education	132,474,462	-	9,165,347	-	(123,309,115)	-	(123,309,115)		
Parks, recreation and culture	33,766,228	287,554	2,388,859	-	(31,089,815)	-	(31,089,815)		
Community development	11,298,553	7,443,378	1,142,170	-	(2,713,005)	-	(2,713,005)		
Interest and other fiscal charges	20,083,955	-	-	-	(20,083,955)	-	(20,083,955)		
Total governmental activities	550,893,949	87,195,854	39,075,745	30,410,059	(394,212,291)	-	(394,212,291)		
Business-type activities:									
Public utility	74,291,178	99,350,705	-	3,986,319	-	29,045,846	29,045,846		
Total business-type activities	74,291,178	99,350,705	-	3,986,319	-	29,045,846	29,045,846		
Total Primary Government	\$ 625,185,127	186,546,559	39,075,745	34,396,378	(394,212,291)	29,045,846	(365,166,445)		
Component units:									
Public Schools	\$ 333,005,865	5,219,655	73,811,020	1,371,676				(252,603,514)	-
Peninsula Airport Commission	16,183,443	7,673,447	-	5,182,855				-	(3,327,141)
Economic and Industrial Development Authorities	18,937,545	21,732,846	-	-				-	2,795,301
Total component units	\$ 368,126,853	34,625,948	73,811,020	6,554,531				(252,603,514)	(531,840)
General revenues:									
City Taxes:									
General property					265,622,961	-	265,622,961	-	-
E-911 service					746,818	-	746,818	-	-
Local sales and use					25,693,286	-	25,693,286	-	-
Consumers' utility					6,428,968	-	6,428,968	-	-
Consumption					554,807	-	554,807	-	-
Telecom sales and use					10,685,005	-	10,685,005	-	-
Business license					17,239,148	-	17,239,148	-	-
Rental car					1,110,324	-	1,110,324	-	-
Motor vehicle license					4,273,220	-	4,273,220	-	-
Bank stock taxes					1,018,617	-	1,018,617	-	-
Recordation and wills					1,477,452	-	1,477,452	-	-
Tobacco					4,576,884	-	4,576,884	-	-
Hotel and motel room tax					4,345,781	-	4,345,781	-	-
Restaurant food tax					26,263,697	-	26,263,697	-	-
Tourism zone tax					93,935	-	93,935	-	-
Amusement					984,277	-	984,277	-	-
Total City Taxes					371,115,180	-	371,115,180	-	-
Grants and contributions not restricted to specific programs					46,117,575	-	46,117,575	153,633,887	-
Payment from the City					-	-	-	115,076,604	-
Investment earnings					4,345,961	1,033,077	5,379,038	110,753	820,582
Miscellaneous					14,270,016	1,474,323	15,744,339	39,418	1,205,461
Transfers					9,500,000	(9,500,000)	-	-	-
Total general revenues and transfers					445,348,732	(6,992,600)	438,356,132	268,860,662	2,026,043
Change in net position					51,136,441	22,053,246	73,189,687	16,257,148	1,494,203
Net position beginning of year - Restated (Note 1)					148,311,043	310,612,370	458,923,413	(333,980,555)	219,216,445
Net position end of year	\$				199,447,484	332,665,616	532,113,100	(317,723,407)	220,710,648

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**

Balance Sheet  
Governmental Funds  
June 30, 2018

	General Fund	Debt Service Fund	Bond Fund	Capital Projects Other Federal and State Fund	Nonmajor governmental funds	Total governmental funds
<b>Assets</b>						
Cash and cash equivalents	\$ 85,564,450	123,005	-	-	27,756,263	113,443,718
Restricted cash	-	-	31,139,204	1,357,248	-	32,496,452
Accounts receivable, net	21,137,787	-	-	-	4,656,140	25,793,927
Receivable from component unit	10,155,757	-	-	-	-	10,155,757
Receivable from other funds	838,984	-	-	-	15,248,602	16,087,586
Receivables from other governments	15,004,192	-	-	19,753,690	2,354,308	37,112,190
Due from Pension Fund	790,987	-	-	-	-	790,987
Due from OPEB Fund	129,206	-	-	-	-	129,206
Inventory, at cost	1,271,870	-	-	-	4,708	1,276,578
Restricted assets:						
Permanently restricted cash	-	2,277,296	-	-	-	2,277,296
Total assets	<u>\$ 134,893,233</u>	<u>2,400,301</u>	<u>31,139,204</u>	<u>21,110,938</u>	<u>50,020,021</u>	<u>239,563,697</u>
<b>Liabilities</b>						
Accounts payable	\$ 16,061,602	52,505	2,790,182	4,181,008	2,504,996	25,590,293
Accrued liabilities	7,569,050	70,500	429,542	18,289	691,892	8,779,273
Deposits	3,735,579	-	-	-	-	3,735,579
Unearned revenues	199,455	-	-	-	37,688	237,143
Payable to Newport News Public Schools	-	-	7,226,810	-	-	7,226,810
Payable to other funds	-	-	-	15,109,033	978,553	16,087,586
Total liabilities	<u>27,565,686</u>	<u>123,005</u>	<u>10,446,534</u>	<u>19,308,330</u>	<u>4,213,129</u>	<u>61,656,684</u>
<b>Deferred Inflows of Resources</b>						
Unavailable revenue-property taxes	11,587,225	-	-	-	-	11,587,225
Property taxes collected in advance	1,058,558	-	-	-	-	1,058,558
Unavailable revenue-stormwater fees	-	-	-	-	559,445	559,445
Total deferred inflows of resources	<u>12,645,783</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>559,445</u>	<u>13,205,228</u>
<b>Fund Balances</b>						
Nonspendable	11,427,627	-	-	-	4,708	11,432,335
Restricted	437,862	2,277,296	20,692,670	1,802,608	23,484,596	48,695,032
Committed	-	-	-	-	22,255,786	22,255,786
Assigned	25,939,296	-	-	-	-	25,939,296
Unassigned	56,876,979	-	-	-	(497,643)	56,379,336
Total fund balances	<u>94,681,764</u>	<u>2,277,296</u>	<u>20,692,670</u>	<u>1,802,608</u>	<u>45,247,447</u>	<u>164,701,785</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 134,893,233</u>	<u>2,400,301</u>	<u>31,139,204</u>	<u>21,110,938</u>	<u>50,020,021</u>	<u>239,563,697</u>

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**  
Reconciliation of the Balance Sheet of Governmental Funds to the  
Statement of Net Position  
June 30, 2018

Fund balances – total governmental funds		\$ 164,701,785
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Net pension assets are not current financial resources and, therefore, are unavailable in the funds.		7,358,516
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Governmental capital assets	\$ 1,444,666,994	
Less accumulated depreciation	<u>(702,028,847)</u>	742,638,147
Other long-term assets are not available to pay for current period expenditures and, therefore, are unavailable in the funds.		12,146,670
Internal service funds are used by management to charge the costs of certain activities to individual funds.	35,266,703	
Adjustment to add back accrued vacation included below	297,345	
Adjustment to add back capital lease included below	<u>77,233</u>	35,641,281
Deferred charge on refunding are reported as deferred outflows of resources in the government-wide financial statements, but are not reported in the governmental fund statements.		9,400,839
Unmatured interest payable reported in governmental activities will not be paid with current financial resources and, therefore, are not reported in the funds.		(6,064,817)
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	(373,646,377)	
Literary fund bonds	(3,779,053)	
Capital lease payable	(98,801)	
Landfill liability	(3,512,000)	
Accrued vacation	(18,757,841)	
Workers' compensation and other claims	(12,044,450)	
Net pension liability	(295,835,834)	
Net OPEB obligations	(83,946,181)	
Net line of duty obligations	(7,208,476)	
Incurred but not reported claims	<u>(3,218,000)</u>	(802,047,013)
Deferred inflows and outflows of resources related to pension plans and OPEB are not due and payable in the current period and therefore, not reported in the governmental funds:		
Deferred inflows - difference between expected and actual experience related to pension and OPEB	(687,875)	
Deferred inflows - difference between projected and actual earnings on plan investments	(3,070,594)	
Deferred inflows - changes in assumptions related to pension and OPEB	(2,409,688)	
Deferred outflows - employer contributions made subsequent to the measurement date	40,136,912	
Deferred outflows - difference between projected and actual earnings on plan investments	1,206,061	
Deferred outflows - difference in proportion and difference between employer contributions and proportionate share of contributions	<u>497,260</u>	35,672,076
Net position of governmental activities		<u>\$ 199,447,484</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, 2018

	General Fund	Debt Service Fund	Bond Fund	Capital Projects Other Federal and State Fund	Nonmajor governmental funds	Total governmental funds
Revenues:						
General property taxes	\$ 266,110,346	-	-	-	-	266,110,346
Other local taxes	105,492,219	-	-	-	-	105,492,219
Licenses and permits	4,005,728	-	-	-	-	4,005,728
Fines and forfeitures	1,741,124	-	-	-	-	1,741,124
Intergovernmental	46,117,575	9,165,347	-	28,748,967	29,923,398	113,955,287
Charges for services	22,123,243	-	-	-	57,423,735	79,546,978
Interest and rent	3,921,503	-	-	8,721	349,907	4,280,131
Recovered costs	5,904,652	-	-	-	3,100	5,907,752
Miscellaneous	5,163,002	65,128	-	-	2,066,839	7,294,969
Total revenues	460,579,392	9,230,475	-	28,757,688	89,766,979	588,334,534
Expenditures:						
Current operating:						
General government	92,648,140	-	-	-	120,545	92,768,685
Judicial administration	6,970,086	-	-	-	466,431	7,436,517
Public safety	117,204,391	-	-	-	2,718,175	119,922,566
Public works	8,841,528	-	-	-	57,124,173	65,965,701
Health and welfare	37,509,112	-	-	-	8,315,685	45,824,797
Education	119,000,000	-	7,632,216	-	2,000,000	128,632,216
Parks, recreation and culture	27,676,164	-	-	-	2,494,055	30,170,219
Community development	7,738,101	-	-	-	2,576,758	10,314,859
Debt service:						
Principal	-	33,689,779	-	-	-	33,689,779
Interest and other charges	-	19,683,175	-	-	-	19,683,175
Capital outlay	-	-	27,302,673	28,087,467	9,377,259	64,767,399
Total expenditures	417,587,522	53,372,954	34,934,889	28,087,467	85,193,081	619,175,913
Excess (deficiency) of revenues over (under) expenditures	42,991,870	(44,142,479)	(34,934,889)	670,221	4,573,898	(30,841,379)
Other financing sources (uses):						
Transfers in	9,500,000	44,323,309	-	-	16,230,384	70,053,693
Transfers out	(49,643,371)	-	-	-	(10,910,322)	(60,553,693)
Total other financing sources (uses), net	(40,143,371)	44,323,309	-	-	5,320,062	9,500,000
Net changes in fund balances	2,848,499	180,830	(34,934,889)	670,221	9,893,960	(21,341,379)
Fund balances at June 30, 2017	91,833,265	2,096,466	55,627,559	1,132,387	35,353,487	186,043,164
Fund balances at June 30, 2018	\$ 94,681,764	2,277,296	20,692,670	1,802,608	45,247,447	164,701,785

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, 2018

Net change in fund balances – total governmental funds \$ (21,341,379)

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	\$ 64,767,399	
Plus: Capital expenditures not included in capital outlays, net of disposals	9,981,326	
Less: Non-capitalized asset	(15,622,131)	
Depreciation expense	<u>(29,870,127)</u>	
		29,256,467

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. 1,218,343

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. Unavailable revenues increased by this amount in the current year. (487,385)

Change in pension asset valuation. These assets are not reported in the governmental funds. 3,129,827

Investment gains and changes in assumptions are recognized resulting from deferred inflows or outflows in the Statement of Activities, but are not reported as gains or losses in the funds. (5,706,943)

Experience loss and change in proportion are recognized resulting from deferred inflows or outflows in the Statement of Activities, but are not reported as gains or losses in the funds. (39,199,579)

Change in annual employer contributions to the pension funds. These activities are reported as deferred outflows in the Statement of Activities, but are not reported in the funds. 1,466,858

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

Principal repayments	33,689,779	
Premium on issuance of long-term debt amortization	4,803,022	
Amortization of refunding losses	<u>(2,162,861)</u>	
		36,329,940

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	(400,780)	
Capital leases payable	112,000	
Landfill liability	303,000	
Accrued vacation	(740,353)	
Net pension obligation	40,312,153	
Net OPEB obligation	3,563,123	
Net line of duty obligation	168,768	
Workers' compensation and other claims	500,111	
Incurred but not reported liabilities	<u>279,000</u>	
		44,097,022

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

Payments and write-offs on capital leases made in the current year 262,211

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

	<u>2,111,059</u>	
Change in net position of governmental activities		<u>\$ 51,136,441</u>

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**  
Statement of Net Position  
Proprietary Funds  
June 30, 2018

Assets	Major Fund - Public Utility	Internal Service Fund
Current assets:		
Cash and cash equivalents	\$ 64,807,019	6,343,898
Restricted cash	23,007,736	—
Accounts receivable, net	15,629,712	—
Inventory	3,307,694	799,192
Prepaid bond principal	1,235,000	—
Total current assets	<u>107,987,161</u>	<u>7,143,090</u>
Noncurrent assets:		
Land held for resale	7,102,444	—
Wetlands credits	5,530,135	—
Capital assets:		
Nondepreciable capital assets:		
Land	8,336,904	20,257
Construction in progress	5,663,368	—
Depreciable capital assets:		
Buildings	152,155,622	3,469,775
Improvements	—	1,128,639
Water system	493,930,232	—
Machinery and equipment	42,067,917	67,404,535
Total capital assets	702,154,043	72,023,206
Less accumulated depreciation	(289,660,961)	(43,171,154)
Capital assets, net	<u>412,493,082</u>	<u>28,852,052</u>
Net pension asset	520,151	—
Total noncurrent assets	<u>425,645,812</u>	<u>28,852,052</u>
Total assets	<u>533,632,973</u>	<u>35,995,142</u>
<b>Deferred Outflows of Resources</b>		
Employer contributions subsequent to the measurement date	4,905,128	—
Net difference between projected and actual earnings on plan investments	134,577	—
Difference in proportion and difference between employer contributions and proportionate share of contributions	31,740	—
Debt refundings resulting in loss transactions	2,632,948	—
Total deferred outflows	<u>7,704,393</u>	<u>—</u>
<b>Liabilities</b>		
Liabilities:		
Current liabilities:		
Accounts payable	3,942,460	239,047
Accrued liabilities	4,844,387	489,392
Unearned revenues	29,609,055	—
General obligation bonds payable, net	11,422,963	—
Revenue bonds payable, net	2,039,837	—
Total current liabilities	<u>51,858,702</u>	<u>728,439</u>
Noncurrent liabilities:		
Deposits	4,668,902	—
General obligation bonds payable, net	41,612,321	—
Revenue bonds payable, net	61,525,266	—
Net pension liability	37,182,093	—
Net OPEB liability	11,329,302	—
Total noncurrent liabilities	<u>156,317,884</u>	<u>—</u>
Total liabilities	<u>208,176,586</u>	<u>728,439</u>
<b>Deferred Inflows of Resources</b>		
Net difference between projected and actual earnings on plan investments	374,604	—
Difference between expected and actual experience	43,907	—
Changes in assumptions	76,653	—
Total deferred inflows	<u>495,164</u>	<u>—</u>
<b>Net Position</b>		
Net position:		
Net investment in capital assets	321,533,379	28,852,052
Unrestricted	11,132,237	6,414,651
Total net position	<u>\$ 332,665,616</u>	<u>35,266,703</u>

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**  
Statement of Revenues, Expenses and Changes in Net Position  
Proprietary Funds  
Year ended June 30, 2018

	<u>Major Fund - Public Utility</u>	<u>Internal Service Fund</u>
Operating revenues:		
Water sales	\$ 60,356,031	-
Charges for services	31,727,637	13,112,531
Miscellaneous	7,267,037	175,218
Total operating revenues	<u>99,350,705</u>	<u>13,287,749</u>
Operating expenses:		
Personal services	29,482,632	3,422,447
Contractual services	9,452,479	116,732
Internal services	1,107,717	184,798
Materials and supplies	11,536,379	4,233,513
Depreciation	14,616,092	5,208,144
Other	2,810,375	-
Total operating expenses	<u>69,005,674</u>	<u>13,165,634</u>
Operating income	<u>30,345,031</u>	<u>122,115</u>
Nonoperating revenues (expenses):		
Interest revenue	1,033,077	65,830
Gain (loss) on disposal of capital assets	(136,445)	329,158
Amortization on bond premium	1,474,323	-
Loss on long-term debt	(332,781)	-
Interest expense	(4,816,278)	-
Total nonoperating revenues (expenses), net	<u>(2,778,104)</u>	<u>394,988</u>
Income before capital contributions and transfers out	<u>27,566,927</u>	<u>517,103</u>
Capital contributions for capital assets	3,986,319	1,648,092
Transfers out	(9,500,000)	-
Change in net position	22,053,246	2,165,195
Net position at June 30, 2017 - Restated (Note 1)	<u>310,612,370</u>	<u>33,101,508</u>
Net position at June 30, 2018	<u>\$ 332,665,616</u>	<u>35,266,703</u>

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**

Statement of Cash Flows  
Proprietary Funds  
Year ended June 30, 2018

	<u>Major Fund - Public Utility</u>	<u>Internal Service Fund</u>
Cash flows from operating activities:		
Receipts from customers	\$ 96,782,443	13,287,749
Payments to suppliers	(27,094,085)	(4,590,394)
Payments to employees	(25,777,967)	(3,422,447)
Other payments	(2,810,375)	—
Net cash provided by operating activities	<u>41,100,016</u>	<u>5,274,908</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(20,219,349)	(6,672,136)
Contributed capital	3,986,319	1,648,092
Proceeds from sale of capital assets	256,522	564,852
Repayment and retirement of long-term debt, net	(11,675,914)	—
Bond issuance cost	(1,500)	—
Interest paid	(4,814,778)	—
Net cash used in capital and related financing activities	<u>(32,468,700)</u>	<u>(4,459,192)</u>
Cash flows used in noncapital financing activities - Transfer to other funds	<u>(9,500,000)</u>	<u>—</u>
Cash flows provided by investing activities - Interest received	<u>1,033,077</u>	<u>65,830</u>
Increase in cash and restricted cash	164,393	881,546
Cash, cash equivalents, and restricted cash at beginning of year	<u>87,650,362</u>	<u>5,462,352</u>
Cash, cash equivalents, and restricted cash at end of year	\$ <u><u>87,814,755</u></u>	\$ <u><u>6,343,898</u></u>
Reported as:		
Cash and cash equivalents	\$ 64,807,019	6,343,898
Restricted cash	<u>23,007,736</u>	<u>—</u>
Total cash, cash equivalents and restricted cash	\$ <u><u>87,814,755</u></u>	\$ <u><u>6,343,898</u></u>
Cash flows from operating activities:		
Operating income	\$ 30,345,031	122,115
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation	14,616,092	5,208,144
Change in:		
Accounts receivable	(1,628,628)	135,600
Inventories	139,721	(140,921)
Accounts payable, accrued liabilities, and leases payable	(5,017,070)	(50,030)
Unearned revenues	(939,635)	—
Deposits	5,945	—
Net pension asset	(199,776)	—
Net pension liability	(419,292)	—
Net OPEB liability	(486,281)	—
Deferred outflow of resources	4,218,184	—
Deferred inflow of resources	465,725	—
Total adjustments	<u>10,754,985</u>	<u>5,152,793</u>
Net cash provided by operating activities	\$ <u><u>41,100,016</u></u>	\$ <u><u>5,274,908</u></u>

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2018

<b>Assets</b>	<b>Pension, Other Postemployment Benefits, &amp; Line of Duty Act Fund</b>	<b>Agency Funds</b>
Cash and cash equivalents	\$ 8,123,878	6,620,104
Cash and cash equivalents with trustee	13,749,182	—
Investments:		
Debt securities	117,424,810	—
Equity investments	696,654,915	—
Private equities	39,794,138	—
Real estate and timber	117,719,519	—
Accounts receivable	—	4,762,123
Due from other components	997,456	—
Due from participants	72,497	—
Sales receivable	1,007,852	—
Claims Fluctuation Reserve (Anthem)	1,786,551	—
Other assets	20,540	—
<b>Total assets</b>	<b>\$ 997,351,338</b>	<b>11,382,227</b>
<b>Liabilities</b>		
Accounts payable	\$ 1,627,156	1,147,476
Due to other governments	—	6,817,439
Due to other agencies	—	3,417,312
Due to City	920,193	—
Purchases payable	611,330	—
<b>Total liabilities</b>	<b>3,158,679</b>	<b>11,382,227</b>
<b>Net Position</b>		
Assets held in trust:		
Restricted for pensions and OPEB benefits	991,603,747	
Restricted	2,588,912	
<b>Total net position</b>	<b>\$ 994,192,659</b>	

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**

Statement of Changes in Fiduciary Net Position

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

Year ended June 30, 2018

	<b>Pension, Other Postemployment Benefits, &amp; Line of Duty Act Fund</b>
Additions:	
Employer Contributions:	
City General Fund	\$ 36,928,924
Waterworks Fund	4,700,363
School Operating Fund	7,611,499
Employee Contributions:	
City General Fund	4,415,775
Waterworks Fund	567,922
School Operating Fund	640,991
Other Contributions:	
Income from Leave Exchange	154,470
Other Income	<u>73,274</u>
Total contributions	<u>55,093,218</u>
Investment income:	
Net appreciation - bonds	(2,765,428)
Net appreciation - stocks	86,315,147
Interest	6,028,653
Dividends	4,102,566
Real estate operating loss, net	5,211,603
Commission recapture	38,473
Other investment income	<u>2,082</u>
Total investment gain	98,933,096
Less investment expenses:	
Other investment expenses	<u>(3,698,527)</u>
Net investment gain	<u>95,234,569</u>
Total additions	<u>150,327,787</u>
Deductions:	
Benefits paid to participants	88,459,102
Refunds of member contributions	69,768
Administrative expenses	<u>1,079,770</u>
Total deductions	<u>89,608,640</u>
Change in net position	60,719,147
Net position held in trust for retirement benefits at June 30, 2017	<u>933,473,512</u>
Net position held in trust for retirement benefits at June 30, 2018	\$ <u><u>994,192,659</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, 2018

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

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

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

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

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

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

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

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

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

**June 30, 2018**

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

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

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

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

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

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

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

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

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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. Real estate and property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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

The City reports the following major governmental funds:

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

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

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

The *Capital Projects Other Federal and State Fund* accounts 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.

The City reports the following major proprietary fund:

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

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

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debt and construction projects and records the acquisition of its depreciable assets and land.

Additionally, the City reports the following fund types:

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

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

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

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

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

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

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

*Capital Projects Fund*, excluding the Bond Fund and Capital Projects Other Federal and State Fund, accounts for capital expenditures.

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

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

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

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

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

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

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

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

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

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

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

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

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

Provisions for uncollectible water, sewer, stormwater and emergency medical bills are based upon a 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 2018 was \$1.22 per \$100 of assessed value.

## CITY OF NEWPORT NEWS, VIRGINIA

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*Personal Property* – The City levies personal property taxes on motor vehicles and tangible personal business property. These levies are made each year as of January 1 with payment due the following December 5 and June 5. The current year personal property taxes reported as revenue are the levies on assessed valuation at January 1, less an allowance for uncollectible amounts and taxes not collected within 45 days after year-end. The 2018 tax rates per \$100 of assessed value were:

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

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

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

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

The City calculates allowances for uncollectibles using historical collection data, specific account analysis and management's judgment. The allowance at June 30, 2018, is composed of the following:

##### General Fund – Allowance for Uncollectibles

###### Taxes receivable:

Real Estate	\$	2,209,628
Personal Property		<u>3,672,404</u>
Total Taxes	\$	<u>5,882,032</u>

##### Non-Major Governmental –

Special Revenue Funds – accounts receivable	\$	2,221,120
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Public Utility Fund - accounts receivable	\$	1,933,886
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## **CITY OF NEWPORT NEWS, VIRGINIA**

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

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#### **(g) Inventories**

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

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

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Interest of \$102,151 was capitalized during fiscal year 2018.

Under Virginia law, certain property maintained by the School Board is subject to a "tenancy-in-common" with the City if the City incurred a financial obligation for the property payable over more than one fiscal year. The School Board and the City have agreed that such property will be carried on the City's financial statements until the outstanding debt is repaid. After repayment, the asset is transferred to the School Board. At June 30, 2018, the City holds capital assets related to school property with a net book value of approximately \$140,327,000.

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

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

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

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

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

**(j) *Compensated Absences***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

City Council has adopted a minimum fund balance policy which states that the General Fund's unassigned fund balance shall not be less than 7.5% of the actual General Fund revenues. For FY 2018, the General Fund's unassigned fund balance is 12.1% of revenues, exceeding the policy threshold of 7.5%.

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

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Details of the fund balance classifications of the Governmental funds at June 30, 2018 are as follows:

<u>Function/Purpose</u>	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Unassigned</u>
General Fund:					
Inventories	\$ 1,271,870	-	-	-	-
Long-term note receivable	10,155,757	-	-	-	-
General government:					
Administration	-	-	-	1,926,938	-
Self insured activities	-	-	-	20,958,271	-
Projects	-	-	-	1,000,000	-
Judicial administration	-	-	-	24,079	-
Public safety	-	-	-	569,283	-
Public works	-	437,862	-	1,128,268	-
Health and welfare	-	-	-	70,750	-
Parks, recreation, and cultural	-	-	-	239,301	-
Community development	-	-	-	1,364	-
Imprest funds	-	-	-	21,042	-
Unassigned	-	-	-	-	56,876,979
Total General Fund	<u>\$ 11,427,627</u>	<u>437,862</u>	<u>-</u>	<u>25,939,296</u>	<u>56,876,979</u>
Other Funds:					
Debt Service:					
Future Debt Service	\$ -	2,277,296	-	-	-
Bond:					
Buildings	-	606,669	-	-	-
Community development	-	16,059,220	-	-	-
Environmental	-	30,783	-	-	-
Equipment	-	3,063	-	-	-
Parks, recreation, and cultural	-	186,291	-	-	-
Streets and bridges	-	1,547,851	-	-	-
Sanitary Sewer/Solid Waste	-	1,166,499	-	-	-
Stormwater	-	1,092,294	-	-	-
Unassigned	-	-	-	-	-
Capital Projects:					
Federal and State Grants	-	1,802,608	-	-	-
Nonmajor Governmental:					
Economic Development	-	-	1,439,631	-	-
Law Library	-	25	190,049	-	-
Environmental	-	-	10,893	-	-
Criminal Justice Academy	-	-	163,278	-	-
Federal and State Grants	-	2,090,306	-	-	-
Community development	-	-	6,597	-	-
Equipment	-	-	371,483	-	-
Parks, recreation, and cultural	4,708	-	482,489	-	(497,643)
Buildings	-	-	222,633	-	-
Streets and bridges	-	-	172,593	-	-
Wastewater	-	5,102,280	-	-	-
Solid waste	-	5,111,076	-	-	-
Stormwater	-	11,180,909	199,806	-	-
Future capital projects	-	-	18,996,334	-	-
Total Other Funds	<u>\$ 4,708</u>	<u>48,257,170</u>	<u>22,255,786</u>	<u>-</u>	<u>(497,643)</u>
Total fund balance	<u>\$ 11,432,335</u>	<u>48,695,032</u>	<u>22,255,786</u>	<u>25,939,296</u>	<u>56,379,336</u>

## CITY OF NEWPORT NEWS, VIRGINIA

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

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

	<b>Governmental Activities</b>
General activities:	
Public works	\$ 437,862
Other activities:	
Debt Service	2,277,296
Law Library	25
Grants	2,090,306
Capital Projects	1,802,608
Stormwater, Solid Waste, Wastewater	21,394,265
Total restricted net position	<u>\$ 28,002,362</u>

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

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

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

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

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

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

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deferred outflow is being amortized over the remaining life of the refunded debt. Deferred outflows for pensions and OPEB result from employer contributions to the retirement plans made after the measurement date, net difference between projected and actual earnings on plan investments and changes in proportionate share. Changes in actuarial assumptions are deferred and amortized over the remaining service life of all participants and investment experience amounts are deferred and amortized over a closed five-year period.

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

Deferred inflows for pensions and OPEB result from changes in actuarial assumptions, differences between the expected and actual experience, pension investment returns that exceed projected earnings and changes in proportionate share. Changes in actuarial assumptions are deferred and amortized over the remaining service life of all participants and investment experience amounts are deferred and amortized over a closed five-year period.

#### **(o) *Change in Accounting Principle and Restatement of Prior Period Net Position***

Effective July 1, 2017, the City adopted the provisions of Governmental Accounting Standards Board GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which requires the City to report the actuarial liability on the Statement of Net Position for the OPEB in addition to requiring more extensive note disclosures, and required supplementary information (RSI) about the OPEB liabilities.

As a result, the adoption of this guidance resulted in a decrease in the beginning net position in the government-wide Statement of Net Position. The net position as of June 30, 2017 has been adjusted accordingly:

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	Governmental Activities	Business-type Activities	Total Primary Government
Net Position, beginning of the year as previously reported	\$ 196,574,365	321,406,543	517,980,908
Net GLI OPEB Liability	(4,400,140)	(280,860)	(4,681,000)
Change in reported value of NOL	(46,152,093)	(11,534,723)	(57,686,816)
Change in reported value of Line of Duty	(5,471,979)	-	(5,471,979)
Deferred Outflows:			
2017 GLI OPEB Contributions	268,840	17,160	286,000
2017 OPEB Contributions	7,235,750	1,004,250	8,240,000
2017 LOD Contributions	256,300	-	256,300
Balance, as restated, June 30, 2017	<u>\$ 148,311,043</u>	<u>310,612,370</u>	<u>458,923,413</u>

Additionally, this implementation of GASB 75 required the City to restate total long-term liabilities as previously reported at June 30, 2017. The restatement of prior long-term liabilities for fiscal year ending June 30, 2017 increased long-term liabilities by the change in the net OPEB liability. As a result, long-term liabilities as of June 30, 2017 have been adjusted accordingly:

	Governmental Activities	Business-type Activities	Total Primary Government
Total long-term liabilities, beginning of the year as previously reported	\$ 829,275,615	171,631,353	1,000,906,968
Net GLI OPEB Liability	4,400,140	280,860	4,681,000
Change in reported value of NOL	46,152,093	11,534,723	57,686,816
Change in reported value of Line of Duty	5,471,979	-	5,471,979
Balance, as restated, June 30, 2017 (note 7)	<u>\$ 885,299,827</u>	<u>183,446,936</u>	<u>1,068,746,763</u>

**(2) Deposits and Investments**

***Deposits***

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



## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

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institutions are required to collateralize 100% of deposits in excess of the FDIC limits and are considered insured. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

To increase returns and minimize fees, the City follows the practice of pooling cash and investments of all funds held with the City Treasurer except for certain restricted funds requiring separate tracking or held by outside custodians. Cash and investments as of June 30, 2018 are classified in the accompanying financial statements, except for Pension and OPEB Funds' as follows:

	<b><u>Carrying amount</u></b>
Cash and deposits:	
Cash on hand	\$ 123,398
Deposits with banks	<u>67,628,970</u>
Total cash and deposits	67,752,368
Investments:	
Local Government Investment Pool (LGIP)	204,797,704
Deposits with banks – Money market accounts	2,004,497
Commonwealth cash reserve	3,504,521
Virginia State Non-Arbitrage Pool (VA SNAP)	53,655,762
Debt Service – QZAB Sinking Fund	2,277,296
Schools' escrow funds	250,000
IDA escrow funds	<u>106,369</u>
Total deposits and investments	<u><u>\$ 334,348,517</u></u>

Cash and investments as of June 30, 2018 are classified in the accompanying financial statements, except for Pension and OPEB Funds, as follows:

	<b><u>June 30, 2018</u></b>
Statements of net position:	
Primary Government:	
Cash and cash equivalents	\$ 184,594,635
Restricted cash	55,504,188
Permanently restricted cash	2,277,296
Component Units:	
Cash and cash equivalents	63,643,586
Restricted cash	18,995,515
Fiduciary Funds:	
Cash and cash equivalents – Line of Duty Act Fund	2,713,193
Cash and cash equivalents – Agency Funds	<u>6,620,104</u>
Total cash and investments	<u><u>\$ 334,348,517</u></u>

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2018

#### ***Investment Policy***

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

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

**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, 2018, the carrying value and weighted average maturity of the City’s investments are listed in the chart that follows.

**Custodial Credit Risk – Deposits:** The City’s deposits at June 30, 2018, were fully insured or collateralized by securities held in the name of the City by the City’s custodial banks.

**Custodial Credit Risk – Investments:** The policy requires that all securities purchased for the City shall be held by the City Treasurer or by the City Treasurer’s designated third party custodian. If held by a custodian, the securities must be in the City’s or in the custodian’s

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2018

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, 2018, were rated by Standard & Poors and Moody. The ratings are presented below using the Standard & Poors rating scale. The School Board, E/IDA and PAC, component units, are pooled with the City and not separately identified.

<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>
LGIP	\$ 194,701,194	AAAm	0.13
LGIP Extended Maturity	10,096,510	AAAf/S1	0.83
Commonwealth Cash Reserve (AIM) – Underlying:			
U.S. Agencies	99,566	A-1+	0.54
U.S. Agencies	48,872	A+	2.36
U.S. Agencies	396,426	AA-	1.40
U.S. Agencies	2,717,293	AA+	1.80
U.S. Agencies	68,982	AA	1.81
U.S. Agencies	104,917	AAA	1.96
Supranational Bonds	39,006	AAA	2.24
Money Market	29,459	AAAm	0.00
SNAP	<u>53,655,762</u>	AAAm	0.09
Total Investments	<u>\$ 261,957,987</u>		

### **Fair Value Hierarchy**

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

The following is a summary of the fair value hierarchy of the fair value of investments of the City as of June 30, 2018.

**CITY OF NEWPORT NEWS, VIRGINIA**  
Notes to Basic Financial Statements  
June 30, 2018

<u>Fair Value Measurements Using</u>			
		Quoted Prices in Active Markets for Identical Assets	Quoted Prices in Active Markets for Identical Assets
Investments by fair value level	6/30/2018	(Level 1)	(Level 2)
Time deposits	\$ 237,579	\$ 237,579	\$ -
U.S. Government agencies	596,004	-	596,004
U.S. Treasury securities	1,935,980	-	1,935,980
U.S. corporate bonds	594,423	-	594,423
Supranational bonds	39,006	-	39,006
Money market funds	29,459	29,459	-
Collateralized mortgage obligations	72,070	-	72,070
Total at fair value	<u>\$ 3,504,521</u>	<u>\$ 267,038</u>	<u>\$ 3,237,483</u>
 <b>Investments at amortized cost</b>			
LGIP	194,701,194		
LGIP Extended Maturity	10,096,510		
SNAP	53,655,762		
Total at amortized cost	<u>258,453,466</u>		
 Total	 <u><u>\$ 261,957,987</u></u>		

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

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

	<u>Carrying amount</u>
Cash and deposits:	
Deposits with banks	\$ 1,049,959
Deposits with banks – repurchase agreements	4,360,726
Pension trust fund money markets	<u>13,749,182</u>
Total cash and deposits	<u>\$ 19,159,867</u>
Investments:	
Debt securities	\$117,424,810
Equity investments	696,654,915
Private equities	39,794,138
Pension fund real estate funds	<u>117,719,519</u>
Total investments	<u>\$971,593,382</u>
 Total deposits and investments	 <u><u>\$990,753,249</u></u>

**CITY OF NEWPORT NEWS, VIRGINIA**  
Notes to Basic Financial Statements  
June 30, 2018

The Pension and OPEB funds' cash and investment as of June 30, 2018, are classified in the accompanying financial statements as follows:

	<b><u>June 30, 2018</u></b>
Cash and cash equivalents	\$ 5,410,685
Cash and cash equivalents with trustee	13,749,182
Investments:	
Debt securities	117,424,810
Equity investments	696,654,915
Private equities	39,794,138
Real estate and timber	<u>117,719,519</u>
Total deposits and investments	<u>\$990,753,249</u>

**Fair Value Hierarchy**

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

The Plan has the following recurring fair value measurements as of June 30, 2018:

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**CITY OF NEWPORT NEWS, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

**Investments and Derivative Instruments measured at Fair Value - Pension**

	<b>Fair Value Measurements Using</b>		
	<b>Fair Value at 6/30/2018</b>	<b>Quoted Prices in Active Markets for Identical Assets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>
<b>Investments by fair value level</b>			
Debt securities:			
Asset backed securities	\$ 10,214,140	\$ -	\$ 10,214,140
Collateralized mortgage obligation	6,555,203	-	6,555,203
Corporate bonds	51,783,588	-	51,783,588
Government agencies	6,156,174	-	6,156,174
Mortgage pass-through	21,363,668	-	21,363,668
U.S. treasury securities	21,352,037	-	21,352,037
Total debt securities	<u>117,424,810</u>	<u>-</u>	<u>117,424,810</u>
Equity securities:			
Consumer goods	56,304,942	56,304,942	-
Energy	11,910,887	11,910,887	-
Financials	36,845,129	36,845,129	-
Health care	21,363,928	21,363,928	-
Industrials	37,982,438	37,982,438	-
Information technology	43,549,741	43,549,741	-
Materials	9,596,232	9,596,232	-
Mutual funds	44,064,037	44,064,037	-
Real estate investment trusts	6,868,796	6,868,796	-
Telecommunication services	2,484,983	2,484,983	-
Utilities	6,736,953	6,736,953	-
Total equity securities	<u>277,708,066</u>	<u>277,708,066</u>	<u>-</u>
Total investments at fair value level	<u>\$ 395,132,876</u>	<u>\$ 277,708,066</u>	<u>\$ 117,424,810</u>
<b>Investments measured at the net asset value (NAV)</b>			
Equity investments:			
Commingled international equity fund	\$ 259,923,639		
Commingled small cap equity fund	<u>126,837,746</u>		
Total equity investments	<u>386,761,385</u>		
Private equity - private equity partnerships	<u>39,794,138</u>		
Real assets:			
Real estate	41,904,990		
Timber	<u>75,814,529</u>		
Total real assets	<u>117,719,519</u>		
Total investments measured at the NAV	<u>544,275,042</u>		
Total investments measured at fair value	<u>939,407,918</u>		
<b>Cash equivalents and short-term investments at the amortized cost</b>			
U.S. Treasury Money Market	<u>13,742,420</u>		
Total investments measured at amortized costs	<u>13,742,420</u>		
Total investments	<u>\$ 953,150,338</u>		

**CITY OF NEWPORT NEWS, VIRGINIA**  
Notes to Basic Financial Statements  
June 30, 2018

**Investments and Derivative Instruments measured at Fair Value - OPEB**

	<b>Fair Value Measurements Using</b>	
	<b>Fair Value at 6/30/2018</b>	<b>Quoted Prices in Active Markets for Identical Assets Level 1</b>
<b>Investments by fair value level</b>		
Equity securities:		
Consumer goods	\$ 3,049,685	\$ 3,049,685
Energy	767,939	767,939
Financials	2,227,962	2,227,962
Health care	1,089,239	1,089,239
Industrials	695,624	695,624
Information technology	2,848,000	2,848,000
Materials	201,161	201,161
Mutual funds	20,589,788	20,589,788
Telecommunication services	309,421	309,421
Utilities	406,645	406,645
Total equity securities	32,185,464	32,185,464
Total investments at fair value	\$ 32,185,464	\$ 32,185,464
<b>Cash equivalents and short-term investments measured at amortized cost</b>		
U.S. Treasury Money Market	\$ 6,762	
Total investments measured at amortized cost	6,762	
Total investments	\$ 32,192,226	

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

Private equity funds – international are valued as described in the following schedule, Note 2. The valuation method for investments measured at the NAV per share (or its equivalent) is presented on the following table:

**Investments measured at the NAV - Pension**

	<b>Fair Value at 6/30/2018</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency (If Currently Eligible)</b>	<b>Redemption Notice Period</b>
Equity investments:				
Commingled international equity fund <sup>(1)</sup>	\$ 259,923,639	\$ -	Daily, Monthly	3-30 days
Commingled small cap equity fund <sup>(1)</sup>	126,837,746	-	Daily, Monthly	3-30 days
Total equity investments	386,761,385	-		
Private equity - private equity partnerships <sup>(2)</sup>	39,794,138	21,533,670	Not eligible	N/A
Real assets:				
Real estate <sup>(3)</sup>	41,904,990	-	Quarterly	3 months
Timber <sup>(3)</sup>	75,814,529	-	Quarterly	N/A
Total real assets	117,719,519	-		
Total investments measured at the NAV	\$ 544,275,042	\$ 21,533,670		

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

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

**June 30, 2018**

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

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

The Pension and OPEB 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; provided, however, that no more than five percent of the Fund may be invested in corporate bonds rated less than "A" but not less than "BB", federally insured mortgages under Titles 203, 207, 220 and 221 of the National Housing Act, equities, certificates of deposit, guaranteed investment contracts, real estate and timber. Pension Trust Fund investments are subject to restrictions placed by policies of the City Council and the Retirement Board.

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

The policy for the Fund has a strict control on credit quality. The Fund may only be invested in corporate bonds rated "A" or higher by two of three nationally known security rating concerns; provided, however, that no more than five percent of the Fund may be invested in corporate bonds rated less than "A" but not less than "BB". The credit risk profile for the Pension Funds' securities by investment type as of June 30, 2018, is as follows:



**CITY OF NEWPORT NEWS, VIRGINIA**  
Notes to Basic Financial Statements  
June 30, 2018

<u>Investment Types</u>	<u>S &amp; P's Ratings as of June 30, 2018</u>							
	<u>TOTAL</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>B</u>	<u>C</u>	<u>Not Rated</u>
Asset-backed	\$ 10,214,140	\$ 7,067,374	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,146,766
Corporate Bonds	51,783,588	473,732	5,988,238	35,790,020	9,531,598	-	-	-
Foreign Currency	90,460,358	-	-	-	-	-	-	90,460,358
Ltd Partner Units	39,794,138	-	-	-	-	-	-	39,794,138
Mortgage-backed	27,918,871	3,391,068	13,124,329	-	147,766	-	-	11,255,708
Mutual Funds	339,489,775	-	-	-	-	-	-	339,489,775
Real Estate	41,904,990	-	-	-	-	-	-	41,904,990
Short-term	13,742,420	-	-	-	-	-	-	13,742,420
Timber	75,814,529	-	-	-	-	-	-	75,814,529
U.S. Agencies	6,156,174	-	3,794,290	-	-	-	-	2,361,884
U.S. Treasury	21,352,037	-	-	-	-	-	-	21,352,037
Non-fixed Assets	234,519,318	-	-	40,094,244	-	129,246,045	8,250,275	56,928,754
Total	<u>\$ 953,150,338</u>	<u>\$ 10,932,174</u>	<u>\$ 22,906,857</u>	<u>\$ 75,884,264</u>	<u>\$ 9,679,364</u>	<u>\$ 129,246,045</u>	<u>\$ 8,250,275</u>	<u>\$ 696,251,359</u>

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

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

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

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

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

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

***Interest Risk – Pension Fund***

The Plan's investment policy does not address investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investment policy defines the investment objectives for both the passive and actively managed segments of the fixed income portfolio. The objective of the passive segment is to replicate the return of the Barclays 1-3 year Government Credit Bond Index. The objective of the actively managed fixed income portfolio is to outperform the Barclays 1-3 year Government Credit Bond index over a moving 3-5 year range, with the exception of long-duration fixed income, which has an objective of outperforming the Barclays Capital Long Government/Credit Index over a moving 3-5 year range. The fair value of the

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

Plan's fixed income portfolio consisted of the following investment and maturities as of June 30, 2018:

Investment Type	Fair Value	<5 years	5-10	10-15	15-20
U.S. Government	\$ 37,722,351	\$ 35,653,801	\$ 2,068,550	\$ -	\$ -
Corporate Bonds	51,783,588	51,300,533	483,055	-	-
Mortgage	27,918,871	27,754,207	1,567	140,889	22,208
Total	<u>\$ 117,424,810</u>	<u>\$ 114,708,541</u>	<u>\$ 2,553,172</u>	<u>\$ 140,889</u>	<u>\$ 22,208</u>

### (3) Accounts Receivable

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

	Governmental activities	Business-type activities
Taxes receivable:		
Real Estate	\$ 8,467,345	-
Personal Property	5,794,674	-
Total taxes receivable, net	14,262,019	-
Accounts receivable	11,531,908	15,629,712
Total receivables, net	<u>\$ 25,793,927</u>	<u>15,629,712</u>

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

	General	Capital Projects Other Federal and State	Public Utility	Agency Funds	Nonmajor governmental funds	Total
Receivables:						
Taxes	\$ 20,144,051	-	-	-	-	20,144,051
Accounts	6,875,768	-	17,563,598	4,762,123	6,877,260	36,078,749
Intergovernmental:						
Federal	1,710,722	10,140,591	-	-	916,775	12,768,088
State	13,293,470	9,613,099	-	-	1,437,533	24,344,102
Gross receivables	42,024,011	19,753,690	17,563,598	4,762,123	9,231,568	93,334,990
Less allowance for doubtful accounts	(5,882,032)	-	(1,933,886)	-	(2,221,120)	(10,037,038)
Net total receivables	<u>\$ 36,141,979</u>	<u>19,753,690</u>	<u>15,629,712</u>	<u>4,762,123</u>	<u>7,010,448</u>	<u>83,297,952</u>

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

In the governmental funds, unavailable revenues consist of revenues that are measurable, but not available for use during the current period. Property taxes receivable at June 30, but not collected within 45 days after that date are reported as deferred inflows of resources in the financial statements. At the end of the current fiscal year, unavailable revenue of \$0.6 million was reported in the governmental nonmajor funds related to stormwater fees. The General Fund had unavailable revenues of \$11.6 million related to property taxes.

### (4) Capital Assets, Net

Capital asset activity for the year ended June 30, 2018 was as follows:

#### Primary Government

	July 1, 2017	Increases	Decreases	June 30, 2018
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 90,967,134	973,242	1,800	91,938,576
Construction in progress	66,266,305	58,795,742	43,912,011	81,150,036
Total capital assets, not being depreciated	157,233,439	59,768,984	43,913,811	173,088,612
Capital assets, being depreciated:				
Buildings	346,241,628	23,952,362	3,932,488	366,261,502
Improvements	220,857,033	3,892,524	4,916,577	219,832,980
Machinery and equipment	168,973,338	9,633,835	3,013,912	175,593,261
Infrastructure	562,553,522	19,360,323	-	581,913,845
Total capital assets being depreciated	1,298,625,521	56,839,044	11,862,977	1,343,601,588
Less accumulated depreciation for:				
Buildings	129,597,094	6,877,261	1,937,650	134,536,705
Improvements	111,553,747	6,879,522	1,234,272	117,198,997
Machinery and equipment	118,102,598	10,718,895	2,778,217	126,043,276
Infrastructure	356,818,430	10,602,593	-	367,421,023
Total accumulated depreciation	716,071,869	35,078,271	5,950,139	745,200,001
Total capital assets being depreciated, net	582,553,652	21,760,773	5,912,838	598,401,587
Capital assets, net	\$ 739,787,091	81,529,757	49,826,649	771,490,199

**CITY OF NEWPORT NEWS, VIRGINIA**

## Notes to Basic Financial Statements

June 30, 2018

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

General Government	\$ 2,418,230
Judicial Administration	651,100
Public Safety	5,233,585
Public Works	11,254,757
Health and Welfare	172,398
Education	5,060,589
Parks, Recreation and Culture	3,966,433
Community Development	1,110,338
Non-departmental	2,697
Internal Service Fund	5,208,144
	<u>\$ 35,078,271</u>

Construction in progress for the City at June 30, 2018 is composed of the following project authorizations and contract commitments (in millions):

	<b>Project Authorization</b>	<b>Expended as of June 30, 2018</b>	<b>Balance of Authorization</b>	<b>Contract Commitments (Encumbrances)</b>
Health and Welfare	\$ 0.1	\$ 0.1	\$ 0.0	\$ -
Public Safety	0.2	0.1	0.1	-
Public Works	202.2	44.1	158.1	64.1
Parks and Recreation	4.0	2.2	1.8	0.7
Economic Development and Urban Renewal	52.5	8.7	43.8	34.5
Public Schools	19.4	10.1	9.3	7.2
Totals	<u>\$ 278.5</u>	<u>\$ 65.3</u>	<u>\$ 213.2</u>	<u>\$ 106.6</u>

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**CITY OF NEWPORT NEWS, VIRGINIA**  
Notes to Basic Financial Statements  
June 30, 2018

**Business-type Activities**

	<b>Balance</b> <b>July 1, 2017</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance</b> <b>June 30, 2018</b>
<b>Public Utility:</b>				
Capital assets, not being depreciated:				
Land	\$ 8,336,985	-	81	8,336,904
Construction in progress	33,470,744	9,543,750	37,351,126	5,663,368
Total capital assets, not being depreciated	41,807,729	9,543,750	37,351,207	14,000,272
Capital assets, being depreciated:				
Buildings	152,155,622	-	-	152,155,622
Improvements	451,717,639	43,232,515	1,019,922	493,930,232
Machinery and equipment	38,596,537	4,831,500	1,360,120	42,067,917
Total capital assets being depreciated	642,469,798	48,064,015	2,380,042	688,153,771
Less accumulated depreciation for:				
Buildings	60,519,704	3,647,910	-	64,167,614
Improvements	186,346,661	7,946,967	689,874	193,603,754
Machinery and equipment	30,128,373	3,021,215	1,259,995	31,889,593
Total accumulated depreciation	276,994,738	14,616,092	1,949,869	289,660,961
Total capital assets being depreciated, net	365,475,060	33,447,923	430,173	398,492,810
Capital assets, net	\$ 407,282,789	42,991,673	37,781,380	412,493,082

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**CITY OF NEWPORT NEWS, VIRGINIA**  
Notes to Basic Financial Statements  
June 30, 2018

**Discretely Presented Component Units**

	Balance			Adjustment	
	July 1, 2017	Increases	Decreases	Assets Held Tenancy In-Common	Balance June 30, 2018
<b>Public Schools:</b>					
Capital assets, not being depreciated:					
Land	\$ 2,896,704	-	-	-	2,896,704
Construction in progress	20,726,356	68,085	20,794,441	-	-
Total capital assets, not being depreciated	23,623,060	68,085	20,794,441	-	2,896,704
Capital assets, being depreciated:					
Buildings	66,190,087	3,269,251	-	3,932,488	73,391,826
Improvements	56,542,729	18,869,148	69,000	4,916,577	80,259,454
Machinery and equipment	66,591,468	4,346,016	3,323,308	-	67,614,176
Total capital assets being depreciated	189,324,284	26,484,415	3,392,308	8,849,065	221,265,456
Less accumulated depreciation for:					
Buildings	42,493,978	1,031,390	-	1,989,916	45,515,284
Improvements	26,164,890	2,606,405	69,000	1,234,272	29,936,567
Machinery and equipment	46,371,231	3,996,511	3,313,008	-	47,054,734
Total accumulated depreciation	115,030,099	7,634,306	3,382,008	3,224,188	122,506,585
Total capital assets being depreciated, net	74,294,185	18,850,109	10,300	5,624,877	98,758,871
Capital assets, net	\$ 97,917,245	18,918,194	20,804,741	5,624,877	101,655,575

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

Depreciation expense of \$7,634,306 was charged to the Public School's governmental functions.

**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2018

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

The composition of interfund balances as of June 30, 2018, is as follows:

Receivables/payables between other funds:

<b><u>Receivable Fund</u></b>	<b><u>Payable Fund</u></b>	<b><u>Amount</u></b>
General Fund	Nonmajor Gov. Fund: Comp. Services Act	\$ 146,473
General Fund	Nonmajor Gov. Fund: CDBG	315,606
General Fund	Nonmajor Gov. Fund: Animal Shelter	216,980
General Fund	Nonmajor Gov. Fund: Police Grants	77,227
General Fund	Nonmajor Gov. Fund: Comm. Atty. Grants	3,784
General Fund	Nonmajor Gov. Fund: Misc. Grants	78,914
Nonmajor Gov. Fund: Gen. Cap. Imp. Fund	Nonmajor Gov. Fund: Special Events	139,569
Nonmajor Gov. Fund: Gen. Cap. Imp. Fund	Capital Projects Other Federal and State	15,109,033

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

Due to/from external parties:

<b><u>Due from external party</u></b>	<b><u>Due to external party</u></b>	<b><u>Amount</u></b>
General Fund	Pension Fund	\$790,987
General Fund	OPEB Fund	129,206

Receivables/payables between Primary Government and component units:

<b><u>Receivable Entity</u></b>	<b><u>Payable Entity</u></b>	<b><u>Amount</u></b>
City	Industrial Development Authority	\$10,155,757
Newport News Public Schools	City	7,226,810

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

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# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

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

	Transfers to:				
	General Fund	Debt Service	Nonmajor Governmental Capital Projects	Nonmajor Governmental Special Revenue	Total
<b>Transfers from:</b>					
General Fund	\$ -	33,412,987	11,949,575	4,280,809	49,643,371
Nonmajor Gov. -					
Special Revenue	-	10,910,322	-	-	10,910,322
Public Utility	9,500,000	-	-	-	9,500,000
	<u>\$ 9,500,000</u>	<u>44,323,309</u>	<u>11,949,575</u>	<u>4,280,809</u>	<u>70,053,693</u>

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

### (6) Lease Agreements

#### (a) Capital Lease Payments – Public Schools (Component Unit)

The School Board has four lease agreements at June 30, 2018 for financing the acquisition of property and equipment.

The net book value of assets acquired through the four capital leases as of June 30, 2018 is as follows:

Machinery and equipment	\$ 2,068,108
Less accumulated depreciation	(772,628)
Assets acquired through capital leases, net	<u>\$ 1,295,480</u>



## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2018

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2018, were as follows:

Years ending June 30:

2019	\$ 466,783
2020	354,643
2021	317,262
2022	374,602
Total minimum lease payments	<u>\$ 1,513,290</u>
Less amounts representing interest	<u>(110,698)</u>
Present value of minimum capital lease payments	<u><u>\$ 1,402,592</u></u>

#### ***(b) Operating Lease Payments – Component Units***

The School Board had three ongoing leased buildings in 2018. Part of the leased space expires on June 30, 2028 and the other leased space in that same building expires on June 30, 2030. One other lease expired on December 31, 2017 but the School Board intends to renew for 3.5 years to June 2021. The School Board also leases space for high school graduation ceremonies on a year-to-year basis. Total costs for such leases were approximately \$817,588 for the year ended June 30, 2018.

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

PAC leases equipment under a long-term non-cancelable operating lease. The initial lease term is five years and expired in February 2018. Upon expiration of the lease agreement, PAC leased the equipment on a month to month basis until a new five year agreement was signed effective August 2018.

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

**CITY OF NEWPORT NEWS, VIRGINIA**  
Notes to Basic Financial Statements  
June 30, 2018

	<u>Schools</u>	<u>E/IDA</u>	<u>PAC</u>
Years ending June 30:			
2019	\$ 745,524	1,024,641	11,950
2020	658,673	1,026,679	14,340
2021	663,606	1,028,772	14,340
2022	707,751	949,825	14,340
2023	712,882	910,000	14,340
2024-2028	3,645,073	2,805,833	2,390
2029-2030	588,464	-	-
	<u>\$ 7,721,973</u>	<u>7,745,750</u>	<u>71,700</u>

**(7) Long-Term Liabilities**

**(a) A summary of changes in long-term liabilities for governmental activities for the year ended June 30, 2018 is as follows:**

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2018</u>	<u>Due within one year</u>
Bonds payable:					
General obligation bonds	\$ 374,813,134	—	(33,270,011)	341,543,123	34,242,747
Deferred amounts:					
Add bonds premiums	36,906,276	—	(4,803,022)	32,103,254	4,662,619
Total bonds payable	<u>411,719,410</u>	<u>—</u>	<u>(38,073,033)</u>	<u>373,646,377</u>	<u>38,905,366</u>
Literary loan bonds	4,198,821	—	(419,768)	3,779,053	419,767
Capital leases payable	210,801	—	(112,000)	98,801	98,801
Land lease payable	262,211	—	(262,211)	—	—
Landfill liability	3,815,000	—	(303,000)	3,512,000	318,000
Accrued vacation	18,017,488	16,034,335	(15,293,982)	18,757,841	15,922,217
Net line of duty obligation*	7,377,244	1,296,323	(1,465,091)	7,208,476	—
Net pension liability	336,147,987	28,251,786	(68,563,939)	295,835,834	—
Net OPEB obligation*	83,109,164	6,165,324	(9,618,467)	79,656,021	—
Net OPEB obligation - GLI*	4,400,140	636,380	(746,360)	4,290,160	—
Workers' comp. and other claims	12,544,561	2,406,407	(2,906,518)	12,044,450	3,057,060
Incurred but not reported medical claims	<u>3,497,000</u>	<u>37,305,914</u>	<u>(37,584,914)</u>	<u>3,218,000</u>	<u>3,218,000</u>
Total long-term liabilities	<u>\$ 885,299,827</u>	<u>92,096,469</u>	<u>(175,349,283)</u>	<u>802,047,013</u>	<u>61,939,211</u>

\*Balances were restated to reflect implementation of GASB 75 (see note 1)

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

General obligation bonds of \$82.8 million are authorized but unissued.

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

At June 30, 2018, approximately \$46.1 million is considered defeased because refunding trusts have been established to pay for them.

*Landfill Liability:* The City closed its Denbigh landfill site on June 30, 1996. Virginia and Federal laws and regulations require a final cover and the performance of certain maintenance monitoring functions at the site for 30 years after closure. The \$3.5 million liability at June 30, 2018 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 2018. Actual costs may be higher due to inflation, technology changes or regulation changes.

**Outstanding general obligation bonds at June 30, 2018, 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, 2018
VRA 99A	03/09/99	12/01/19	3.80%	\$ 272,934
VRA 00A	03/01/00	03/01/21	3.50%	551,025
VPSA 00B	11/16/00	07/15/21	5.15%	1,075,384
VRA 01A	04/24/01	05/01/22	4.10%	542,965
VRA 02A	05/15/02	01/01/23	3.75%	859,049
VRA 03A	06/24/03	06/01/24	3.50%	1,142,317
QZAB 03A	12/31/03	12/28/18	3.50%	1,090,819
QZAB 03B	12/31/03	12/28/18	3.50%	1,351,675
VRA 04A	06/30/04	09/01/25	3.10%	1,327,394
VRA 05A	08/24/05	09/01/26	3.50%	1,691,291
Series 06B	02/16/06	02/01/19	4.00%	1,325,000
VRA 06A	10/20/06	11/01/27	3.10%	1,523,289
Series 07B	04/05/07	07/01/22	5.00%	14,900,000
VRA 07A	09/11/07	09/01/28	3.00%	1,885,711
VRA 08	12/12/08	09/01/29	3.50%	1,994,083
Series 09A	05/06/09	06/30/30	3.44%	3,160,000
Series 09B	05/06/09	06/30/20	2.23%	2,530,000
VRA 09	12/16/09	09/01/30	3.35%	3,480,187
Series 11A	07/28/11	07/01/31	3.31%	6,300,000
Series 11B	07/28/11	07/01/19	1.97%	5,370,000
Series 12A	03/21/12	07/15/24	1.93%	29,170,000
Series 12B	03/21/12	07/15/19	1.41%	3,625,000
Series 12C	09/27/12	09/01/32	2.58%	28,800,000
Series 12D	09/27/12	09/01/21	1.77%	2,075,000
Series 14A	05/22/14	07/15/34	3.05%	38,250,000
Series 14A-Ref	05/22/14	07/15/27	2.43%	45,760,000
Series 14B	05/22/14	01/15/25	3.08%	4,845,000
Series 15	12/17/15	07/15/35	2.58%	44,000,000
Series 16A	06/21/16	08/01/31	2.01%	33,190,000
Series 17A	06/08/17	08/01/37	2.60%	59,455,000
Totals				<u>\$ 341,543,123</u>

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

Outstanding literary loans at June 30, 2018, of the Primary Government governmental activities, are comprised of the following issues:

Project	Bond Date	Final Maturity Date	Effective Interest Rate (at issue)	Balance June 30, 2018
Warwick High	09/01/99	09/01/19	2%	\$ 18,400
Menchville High-2	10/01/00	10/01/20	2%	37,500
Denbigh High-2	08/01/01	08/01/21	2%	49,063
Gildersleeve Middle-2	08/15/01	08/15/21	2%	25,000
Dozier Middle	08/15/01	08/15/21	2%	25,000
Reservoir Middle	05/01/02	05/01/22	2%	25,000
Hines Middle	05/01/02	05/01/22	2%	25,000
Huntington Middle-2	09/01/02	09/01/22	2%	33,917
General Stanford	06/30/07	07/15/27	2%	3,540,173
Totals				\$ <u>3,779,053</u>

The following table summarizes future debt service requirements as of June 30, 2018:

Fiscal year ending June 30:	General Obligation Bonds		Literary Loans	
	Principal	Interest	Principal	Interest
2019	\$ 34,242,747	13,615,258	\$ 419,767	75,580
2020	30,336,743	12,306,117	419,767	67,186
2021	29,252,847	11,038,141	410,567	58,791
2022	28,579,472	9,811,979	398,066	50,578
2023	26,910,135	8,623,955	360,803	42,618
2024-2028	103,157,621	27,448,371	1,770,083	106,205
2029-2033	62,388,558	10,278,931	-	-
2034-2038	26,675,000	1,675,850	-	-
Total future debt service	\$ <u>341,543,123</u>	<u>94,798,602</u>	\$ <u>3,779,053</u>	<u>400,958</u>

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# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

### Business-type Activities

A summary of changes in long-term liabilities for capital-related, business-type activities for the year ended June 30, 2018 is as follows:

	<b>Balance July 1, 2017</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2018</b>	<b>Due within one year</b>
Bonds payable:					
General obligation bonds \$	60,425,000	—	(10,415,000)	50,010,000	10,750,000
Revenue bonds	56,115,000	—	(877,302)	55,237,698	1,257,698
Deferred amounts:					
Add bond premiums	12,827,012	—	(1,474,323)	11,352,689	1,455,102
Total bonds payable \$	129,367,012	—	(12,766,625)	116,600,387	13,462,800
Net Pension liability	37,601,385	7,641,600	(8,060,892)	37,182,093	—
Net OPEB liability*	11,534,723	855,686	(1,334,947)	11,055,462	—
Net OPEB liability-GLI*	280,860	40,620	(47,640)	273,840	—
Deposits	4,662,956	2,688,632	(2,682,686)	4,668,902	—
Total long-term liabilities \$	183,446,936	11,226,538	(24,892,790)	169,780,684	13,462,800

Outstanding public utility bonds at June 30, 2018 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, 2018</b>
2006B	02/15/06	02/01/19	4.3% \$	2,040,000
2007B	04/05/07	07/01/22	5.1%	14,630,000
2009B	05/06/09	09/01/29	4.3%	4,960,000
2012A	03/21/12	07/15/24	1.9%	5,980,000
2012B	03/21/12	07/15/19	1.4%	5,065,000
2014A	05/22/14	07/15/27	2.5%	17,335,000
2016A-IRB	06/02/16	06/30/37	2.7%	27,307,698
2017A-IRB	05/31/17	06/30/38	2.6%	27,930,000
<b>Totals</b>			\$	105,247,698

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# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

The following table summarizes future debt service requirements of Business-type Activities as of June 30, 2018:

Fiscal year ending June 30:	Business-type Activities	
	Principal	Interest
2019	\$ 12,007,698	4,492,237
2020	11,450,000	3,993,884
2021	9,065,000	3,557,269
2022	9,485,000	3,091,875
2023	7,095,000	2,700,525
2024-2028	25,640,000	9,396,400
2029-2033	15,255,000	4,735,100
2034-2038	15,250,000	1,367,550
Totals	\$ 105,247,698	33,334,840

### 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, 2018 is as follows:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due within one year
Compensated absences	\$ 4,820,173	2,532,478	(2,418,984)	4,933,667	740,050
Workers' compensation claims	5,332,357	1,173,032	(1,172,994)	5,332,395	1,066,479
Capital leases payable	872,986	956,819	(427,213)	1,402,592	418,969
Capital facility notes payable	17,909,568	-	(1,392,501)	16,517,067	140,121
OPEB NNPS Trust Fund*	76,414,250	15,132,399	(2,212,021)	89,334,628	-
OPEB VRS health care credit*	25,892,000	2,058,000	(2,279,000)	25,671,000	-
OPEB VRS life insurance*	15,906,000	255,000	(2,408,000)	13,753,000	-
Incurred but not reported medical claims	3,078,000	28,348,765	(28,832,765)	2,594,000	2,594,000
VRS teacher pool net pension liability	286,104,000	34,713,000	(71,871,000)	248,946,000	-
NNERF net pension liability	91,756,052	2,489,197	(18,259,357)	75,985,892	-
Totals	\$ 528,085,386	87,658,690	(131,273,835)	484,470,241	4,959,619

\*Balances were restated to reflect implementation of GASB 75

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

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

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

**June 30, 2018**

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).

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

#### **E/IDA and PAC – Component Units**

Industrial Revenue Bonds and Notes Payable (the “Bonds and Note”) have been issued in the name of E/IDA to finance construction projects. The Bonds and Note, 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 Note have no recourse against the E/IDA, but must look to the property and lessee for indemnity. In 2018, approximately \$17.8 million of the Bonds and Notes are considered a moral obligation of the City. A moral obligation of the City is a contingent guarantee of a third party’s debt. It is referred to as a “moral” obligation because it is not a legal obligation of the City but a good faith obligation, which, if called upon, would require appropriations by City Council of amounts sufficient to pay the guaranteed amounts. Since 1995, when the first moral obligation was issued by the E/IDA, there has never been a need to call upon the City to appropriate any funds on morally obligated debt.

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**CITY OF NEWPORT NEWS, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

The E/IDA bonds and Notes at June 30, 2018 are comprised of the following:

	Issue date	Maturity date	Effective interest rates	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Amount due within one year
<b>Bonds payable:</b>								
Sears	03/01/98	10/01/18	5.40%	\$ 1,381,968	\$ -	(1,097,836)	284,132	284,132
VSS	03/01/98	10/01/18	5.40%	1,254,385	-	(996,509)	257,876	257,876
Downtown Eng	04/05/00	07/01/31	2.58%	13,660,000	-	(1,060,000)	12,600,000	3,220,000
Merchant's Walk	12/21/10	12/01/20	2.70%	3,576,000	-	(894,000)	2,682,000	894,000
CITI A '07	02/26/07	08/01/22	2.86% v	1,630,428	-	(277,107)	1,353,321	296,977
CITI B '07	02/26/07	08/01/22	2.74% v	335,496	-	(58,615)	276,881	62,024
Series 2012A	10/12/12	07/01/30	4.00%	25,390,000	-	-	25,390,000	-
Series 2012B	10/12/12	07/01/31	0.76%	23,780,000	-	(2,670,000)	21,110,000	2,625,000
A-School Garage	07/23/15	09/01/27	3.80%	10,746,152	-	(976,924)	9,769,228	976,924
Series 2015	07/23/15	09/01/27	3.48%	4,575,000	-	(915,000)	3,660,000	1,140,000
<b>Totals</b>				<b>86,329,429</b>	<b>-</b>	<b>(8,945,991)</b>	<b>77,383,438</b>	<b>9,756,933</b>
Premium on bonds payable				3,250,943	-	(362,599)	2,888,344	355,263
<b>Total bonds payable, net</b>				<b>89,580,372</b>	<b>-</b>	<b>(9,308,590)</b>	<b>80,271,782</b>	<b>10,112,196</b>
<b>Notes payable:</b>								
809 Omni Blvd	08/13/07	07/01/22	3.49%	1,500,000	-	(150,000)	1,350,000	150,000
Sherwood Note A	11/23/16	01/01/32	3.14%	4,900,000	-	(326,666)	4,573,334	326,667
Sherwood Note B	11/23/16	01/01/32	3.14%	3,100,000	-	(206,667)	2,893,333	206,667
<b>Total bonds and notes payable</b>				<b>\$ 99,080,372</b>	<b>\$ -</b>	<b>(9,991,923)</b>	<b>89,088,449</b>	<b>10,795,530</b>

v denotes variable rate bonds

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

At June 30, 2018 and June 30, 2017, there were eleven Bonds outstanding with an aggregate principal amount payable of \$472,976,729 and \$438,476,178 million, respectively.



# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

The PAC Airport Improvement Revenue Bonds at June 30, 2018, are comprised of the following:

Series	Issue Date	Maturity Date	Eff. Int. Rate (%)	Balance July 1, 2017	Reductions	Balance June 30, 2018	Amt Due in one year
2002	07/03/02	07/01/27	2.8	\$ 1,314,688	116,955	1,197,733	120,212
2005A	12/15/05	01/15/32	4.3	4,926,717	250,445	4,676,272	260,421
2005B	12/15/05	01/15/32	5.8	2,227,455	97,957	2,129,498	121,476
Totals				\$ 8,468,860	465,357	8,003,503	502,109

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

	E/IDA		PAC	
	Principal	Interest	Principal	Interest
Fiscal year ending June 30:				
2019	\$ 10,440,267	2,804,523	502,109	310,741
2020	7,567,964	2,533,714	521,763	291,087
2021	7,774,788	2,313,060	542,207	270,642
2022	6,864,285	2,098,139	563,475	249,375
2023	7,023,192	1,875,208	585,599	227,251
2024-2028	30,671,275	6,167,888	3,125,834	774,129
2029-2032	15,858,334	1,143,442	2,162,516	172,896
Total	\$ 86,200,105	18,935,974	8,003,503	2,296,121

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

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

June 30, 2018

#### **(8) Defined Benefit Retirement Plan**

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

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

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

The Plan consists of two separate funds, the Pension Fund (Pension) and the Other Postemployment Benefits (OPEB) Fund. The Plan's two Funds are considered trust funds of the City and are included within the City's Comprehensive Annual Financial Report (CAFR) as fiduciary trust funds. The nine voting members of the Retirement Board oversee the operation of the Pension and OPEB Funds. The City issues a publicly available CAFR that includes financial statements and required information for the Plan. The report may be obtained by writing to the City of Newport News Finance Department, 2400 Washington Avenue, Newport News, VA 23607 or online at [www.nnva.gov/2357/NNERF](http://www.nnva.gov/2357/NNERF).

###### **Benefits Provided**

All full-time regular employees hired prior to March 1, 2010 for the City and hired prior to July 1, 2009 for Schools are members of the Pension Fund. (Members who have earned a supplemental benefit are shown as "School VRS" members in the chart that follows.) Employees hired after the above dates are in VRS, a multiple-employer defined benefit pension plan administered by the Commonwealth of Virginia.

The Pension Fund provides pension, life insurance and disability benefits. Members vest after five years of credited service. Employees who retire at or after age 60 (age 50 for public safety officers) with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.0% of their Average Final Compensation for each year of credited service worked through February 28, 2010, 1.85% for each year of credited service from March 1, 2010 through December 31, 2012, and 1.65% for each year of credited service after January 1, 2013 (For public safety employees, the multiplier remains at 1.85% for time worked after January 1, 2013). Average Final Compensation (AFC) is defined as the average annual compensation earned by a member during the member's 36 highest earned consecutive months of credited service. Employees

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

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

June 30, 2018

with 30 years credited service (25 years for public safety) may retire at any age with full benefits. Employees (other than public service employees) with 25 years of service may retire prior to age 60 and receive a reduced benefit. City employees in NNERF began to contribute 5% of their salary to the Plan as of January 1, 2013. Schools employees began contributing 2% of their pay effective July 1, 2013 and contribute the full 5% of their pay effective July 1, 2014.

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

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

#### **Employees Covered by Benefit Terms**

City membership as of the valuation date in the plan consisted of:

#### **June 30, 2016**

	<b>Participant Counts</b>
Active members	2,372
Retirees and beneficiaries	5,795
Terminated vested members	4,787
<b>Total</b>	<b>12,954</b>

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

The Plan engages an actuary to determine the Actuarially Determined Contribution (ADC) in accordance with GAAP. However, the City has elected to continue to compute the Actuarially Required Contribution (ARC) in order to track its progress on the eight-year funding program established by the City in 2010, which was put in place to provide that, by 2017, the City would be contributing 100% of the recommended contribution. The City began funding 100% of the ADC beginning in fiscal year 2016, one year earlier than planned. The total contributions as a percentage of the ARC was 100% for fiscal year 2018.

Effective January 1, 2013, employee contributions to the Pension were made mandatory. Contributions totaling \$40,700,786 and \$5,779,158 were made by employers and employees, respectively, to the Pension Fund during the year ended June 30, 2018. The percentage of contributions to covered payroll for fiscal year 2018 was 37.6%.

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

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

June 30, 2018

#### **Net Pension Liability**

The City's net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of July 1, 2016, using an updated actuarial assumption, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

#### **Actuarial Assumptions**

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

Actuarial valuation date	July 1, 2015
Actuarial cost method	Entry Age Normal
Amortization method	Closed
Remaining amortization period	30 years level dollar from July 1, 2011
Asset valuation method	Five-Year smoothed market
Actuarial assumptions:	
Investment rate of return	7.50%
Rate of salary increases	2.00% for the next two years 4.50% thereafter
Cost of living adjustment	1.33%
Inflation	2.80%
Rate of Mortality	RP-2000 Sex distinct Combined Healthy Mortality Projected to 2020 by Scale AA

#### **Long-Term Expected Rate of Return**

The long-term expected rate of return on NNERF investments was determined using best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation), developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The annual money-weighted rate of return net of investment fees for fiscal year 2018 was 9.92%. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018 are summarized in the following table:

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2018

<b>Asset Class</b>	<b>Long-Term Expected Real Rate of Return</b>	<b>Target Allocation</b>
Large Cap Equities	4.6%	24.0%
Mid Cap Equities	8.4%	14.0%
Small Cap Equities	6.3%	12.0%
International Equities	3.5%	12.0%
Emerging Markets	7.9%	4.0%
Real Estate	6.5%	4.0%
Private Equities	10.1%	6.0%
Timberland	3.6%	8.0%
Fixed Income (Bonds)	1.8%	15.0%
Cash	-2.8%	1.0%
Total		100.0%

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

The discount rate used to measure the total pension liability was 7.50%.

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

Based on these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current members until the last payment for the current covered population is made as of June 30, 2017 measurement date. Consequently, the single equivalent rate used to determine the total pension liability as of June 30, 2017 is 7.50%, the long-term expected rate-of-return as defined by GAAP as of that date.

The following presents the net pension liability of the City, calculated using the discount rate of 7.50%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percent point lower (6.50%) or one percent point higher (8.50%) than the current rate:

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

	1% Decrease 6.50%	Discount Rate 7.50%	1% Increase 8.50%
Total pension liability	\$ 1,452,756,992	\$ 1,308,437,308	\$ 1,186,698,552
Plan fiduciary net position	899,433,489	899,433,489	899,433,489
Net pension Liability	<u>\$ 553,323,503</u>	<u>\$ 409,003,819</u>	<u>\$ 287,265,063</u>

Plan fiduciary net position as a			
Percentage of the Total Pension Liability	61.9%	68.7%	75.8%

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

### Changes in the Net Pension Liability

The City's change in net pension liability of the Pension Fund for 2017 was as follows:

	Total Pension Liability	Fiduciary Net Position			Net Position Liability
	(a)	City's (b)	Proprietary's (b)	School's (b)	(a)-(b)
<b>Balances at June 30, 2016</b>	\$ 1,281,164,122	\$ 565,906,099	\$ 62,110,640	\$ 187,641,959	\$ 465,505,424
<b>Changes for the year:</b>					
Service cost	9,045,434	-	-	-	9,045,434
Interest	93,983,070	-	-	-	93,983,070
Differences between expected and actual experience	(185,230)	-	-	-	(185,230)
Contributions - employer	-	28,307,293	3,557,799	7,270,772	(39,135,864)
Contributions - member	-	4,331,061	544,350	1,112,441	(5,987,851)
Net investment income	-	83,306,076	10,470,328	21,397,320	(115,173,724)
Benefit payments	(75,570,088)	(54,660,449)	(6,870,001)	(14,039,638)	-
Administrative expenses	-	(688,994)	(86,596)	(176,969)	952,560
<b>Net changes</b>	<u>27,273,186</u>	<u>60,594,986</u>	<u>7,615,879</u>	<u>15,563,926</u>	<u>(56,501,605)</u>
<b>Balances at June 30, 2017</b>	<u>\$ 1,308,437,308</u>	<u>\$ 626,501,085</u>	<u>\$ 69,726,519</u>	<u>\$ 203,205,885</u>	<u>\$ 409,003,819</u>

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

Activities	Contributions	Net Pension Liability	Proportionate Share
Governmental Activities	\$ 28,307,293	\$ 295,835,834	72.33%
Business-type Activities	3,557,799	37,182,093	9.09%
Component Unit - School Board	7,270,772	75,985,892	18.58%
<b>Total</b>	<u>\$ 39,135,864</u>	<u>\$ 409,003,819</u>	<u>100.00%</u>

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

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

For the year ended June 30, 2018 the City recognized pension expense of \$36,902,235. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Governmental Activities		Business- type Activities		Total Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflow of Resources
Employee contributions subsequent to measurement date	\$ 29,393,174	\$ -	\$ 3,696,113	\$ -	\$ 33,089,287	\$ -
Net difference between projected and actual earnings on pension plan investments	\$ 1,070,748	\$ -	\$ 134,577	\$ -	\$ 1,205,325	\$ -

\$33,089,287 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the Fiscal Year ending June 30, 2019.

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

#### Year ended June 30:

2019	\$ (722,634)
2020	8,451,522
2021	2,458,147
2022	(8,981,710)
	<u>\$ 1,205,325</u>

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

### Payable to the Pension Plan

At June 30, 2018, the City did not have a payable to the pension plan.

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2018

#### **(b) Virginia Retirement System**

##### **Plan Description**

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

The Schools contribute to the VRS, which administers two plans – an agent multiple employer plan and a cost-sharing teachers multiple-employer defined benefit plan. VRS administers an agent multiple-employer defined benefit pension plan for all School Board non-professional employees hired on or after July 1, 2009. Those hired between July 1, 2009 and June 30, 2010 are under the provisions of Plan 1, those hired between July 1, 2010 and December 31, 2013 are under the provisions of Plan 2 and those hired on or after January 1, 2014 are under the provisions of the hybrid plan. The Schools information is not included in this report, but can be obtained from the School's Web site at <http://sbo.nn.k12.va.us/budget/CAFR.pdf>.

##### **Benefits Provided**

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

VRS issues a publicly available CAFR that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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



## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2018

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

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2018

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

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

		the plan, and the employer is required to match those voluntary contributions according to specified percentages.
<p><b>Creditable Service</b> Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p><b>Creditable Service</b> Same as Plan 1.</p>	<p><b>Creditable Service</b> <b><u>Defined Benefit Component:</u></b> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><b><u>Defined Contributions Component:</u></b> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p><b>Vesting</b> Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least</p>	<p><b>Vesting</b> Same as Plan 1.</p>	<p><b>Vesting</b> <b><u>Defined Benefit Component:</u></b> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit.</p>

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

<p>five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>		<p>Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><b><u>Defined Contributions Component:</u></b></p> <p>Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul>
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# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

		Distribution is not required by law until age 70½.
<b>Calculating the Benefit</b> The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	<b>Calculating the Benefit</b> See definition under Plan 1.	<b>Calculating the Benefit</b> <b><u>Defined Benefit Component:</u></b> See definition under Plan 1.  <b><u>Defined Contribution Component:</u></b> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
<b>Average Final Compensation</b> A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	<b>Average Final Compensation</b> A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	<b>Average Final Compensation</b> Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
<b>Service Retirement Multiplier VRS:</b> The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.	<b>Service Retirement Multiplier VRS:</b> Same as VRS Plan1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	<b>Service Retirement Multiplier Defined Benefit Component VRS:</b> The retirement multiplier is for the defined benefit is 1.00%.  For members that opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.
<b>Sheriffs and regional jail superintendents:</b> The retirement multiplier for	<b>Sheriffs and regional jail superintendents:</b> Same as Plan 1.	<b>Sheriffs and regional jail superintendents:</b> Not applicable.

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

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

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

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

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

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

## Notes to Basic Financial Statements

June 30, 2018

<p><b>Disability Coverage</b></p> <p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p>	<p><b>Disability Coverage</b></p> <p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p>	<p><b>Disability Coverage</b></p> <p>Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>
<p><b>Purchase of Prior Service</b></p> <p>Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.</p>	<p><b>Purchase of Prior Service</b></p> <p>Same as Plan 1.</p>	<p><b>Purchase of Prior Service</b></p> <p><b><u>Defined Benefit Component:</u></b></p> <p>Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> <li>• Hybrid Retirement Plan members are ineligible for ported service.</li> </ul> <p><b><u>Defined Contribution Component:</u></b></p> <p>Not applicable.</p>

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2018

#### Number of Employees by Class

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

	June 30, 2016
	<b>Retirees and Beneficiaries</b>
Inactive Members or Their Beneficiaries	
Currently Receiving Benefits	8
Inactive Members	
Vested	28
Non-Vested	272
Active Elsewhere in VRS	162
Total Inactive Members	462
Active Members	1,193
<b>Total</b>	<b>1,663</b>

#### Contributions Made and Contributions Required

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

The City's contractually required contribution rate for the year ended June 30, 2018 was 5.44% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$3,074,885 and \$2,766,138 for the years ended June 30, 2018 and June 30, 2017, respectively.

#### Net Pension Asset

The City's net pension asset was measured as of June 30, 2017. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed

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

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

June 30, 2018

as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

#### **Actuarial Assumptions**

The total pension liability for General Employees was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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

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

#### **Mortality rates:**

Largest 10 – Non-Hazardous Duty : 20% of deaths are assumed to be service related

##### **Pre-Retirement:**

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at age 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

##### **Post-Retirement:**

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

##### **Post-Disablement:**

RP-2014 Disability Mortality Rates projected with scale BB to 2020 males forward 2 years, 110% of rates; females 125% of rates.

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2018

All Others (Non 10 Largest) – Non-Hazardous Duty: 15% of deaths are assumed to be service related

#### Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

#### Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded ages 70 to 90.

#### Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

#### Largest 10 – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-Retirement healthy, and disabled)	Update to a more current mortality table- RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 20%

#### All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-Retirement healthy, and disabled)	Update to a more current mortality table- RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2018

	retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%

### Long-term Expected Rate of Return

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

<b>Asset Class (Strategy)</b>	<b>Target Allocation</b>	<b>Arithmetic Long-Term Expected Rate of Return</b>	<b>Weighted Avg Long-Term Expected Rate of Return</b>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u>100.00%</u>		<u>4.80%</u>
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.30%</u>

\* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83% including expected inflation of 2.50%.

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2018

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

The discount rate used to measure the total pension liability was 7.00%.

The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the Long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

	<b>1% Decrease</b> <b>6.00%</b>	<b>Discount Rate</b> <b>7.00%</b>	<b>1% Increase</b> <b>8.00%</b>
Plan's Net Pension Asset	2,615,850	7,878,667	11,976,871

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

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# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

### Changes in the Net Pension Asset

The City's change in net pension asset of the VRS Plan for 2017 was as follows:

	<b>Total Pension Liability (a)</b>	<b>City's Fiduciary Net Position (b)</b>	<b>Proprietary's Fiduciary Net Position (b)</b>	<b>Net Pension Asset (a)-(b)</b>
<b>Balances at June 30, 2016</b>	\$ 19,893,984	\$ 22,684,785	\$ 1,758,263	\$ (4,549,064)
<b>Changes for the year:</b>				
Service cost	5,556,353	-	-	5,556,353
Interest	1,382,295	-	-	1,382,295
Changes of assumptions	(1,239,629)	-	-	(1,239,629)
Differences between expected and actual experience	(271,408)	-	-	(271,408)
Contributions - employer	-	2,600,170	165,968	(2,766,138)
Contributions - member	-	2,524,691	161,150	(2,685,841)
Net investment income	-	3,122,818	199,329	(3,322,147)
Benefit payments	(293,811)	(276,182)	(17,629)	-
Administrative expenses	-	(12,866)	(821)	13,687
Other Changes	-	(3,032)	(193)	3,225
<b>Net changes</b>	<u>5,133,800</u>	<u>7,955,599</u>	<u>507,804</u>	<u>(3,329,603)</u>
<b>Balances at June 30, 2017</b>	<u>\$ 25,027,784</u>	<u>\$ 30,640,384</u>	<u>\$ 2,266,067</u>	<u>\$ (7,878,667)</u>

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

For the year ended June 30, 2018, the City recognized VRS pension expense of \$1,866,502. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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**CITY OF NEWPORT NEWS, VIRGINIA**  
Notes to Basic Financial Statements  
June 30, 2018

	<b>Governmental Activities</b>		<b>Business- type Activities</b>		<b>Total Activities</b>	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions subsequent to measurement date	\$ <u>2,890,392</u>	\$ <u>-</u>	\$ <u>184,493</u>	\$ <u>-</u>	\$ <u>3,074,885</u>	\$ <u>-</u>
Differences between expected and actual experience	\$ <u>-</u>	\$ <u>592,935</u>	\$ <u>-</u>	\$ <u>37,847</u>	\$ <u>-</u>	\$ <u>630,782</u>
Changes of assumptions	\$ <u>-</u>	\$ <u>979,997</u>	\$ <u>-</u>	\$ <u>62,553</u>	\$ <u>-</u>	\$ <u>1,042,550</u>
Net difference between projected and actual earnings on plan investment	\$ <u>-</u>	\$ <u>526,197</u>	\$ <u>-</u>	\$ <u>33,587</u>	\$ <u>-</u>	\$ <u>559,784</u>

\$3,074,885 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the Fiscal Year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to VRS will be recognized in pension expense in future reporting periods as follows:

**Year ended June 30:**

2019	\$ (512,259)
2020	(335,970)
2021	(410,391)
2022	(614,596)
2023	(282,192)
Thereafter	(77,708)
<b>Total</b>	<b>\$ <u>(2,233,116)</u></b>

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

**Payable to the Pension Plan**

At June 30, 2018, the City did not have a payable to the VRS plan.



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

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

June 30, 2018

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

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

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

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

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

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

###### **Benefits Provided**

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

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

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

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

June 30, 2018

#### **Employees Covered by Benefit Terms**

City membership as of the valuation date in the plan consisted of:

**July 1, 2016**

<b>Active Employees</b>	
Count	<u>1,846</u>
<b>Retirees with Medical, Dental, and/or Life Coverage</b>	
Retirees	1,801
Surviving Spouses	209
Non-Line of Duty Disabled Retiree:	<u>64</u>
<b>Total</b>	<u><u>2,074</u></u>

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

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

The City does not have a formal funding policy for the OPEB Fund and operates on a pay-as-you-go basis. The City makes monthly contributions to the OPEB Fund based on anticipated expenditures for the fiscal year, which are not covered by the retiree contributions to the Fund for their portion of their insurance premiums.

Contributions by the City to the OPEB Fund during the year ended June 30, 2018 totaled \$8,240,000. The percentage of contributions to covered payroll for fiscal year 2018 was 8.6%.

#### **Net OPEB Liability**

The City's net OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation performed as of June 30, 2016, using an updated actuarial assumption, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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

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

June 30, 2018

#### **Actuarial Methods and Assumptions**

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

Actuarial valuation date	July 1, 2016
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Remaining amortization period	23 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	4.00%
Rate of salary increases	3.00%
Initial rate of medical inflation	1.33%
Ultimate rate of medical inflation	1.33%
(capped by employer policy)	
Inflation	2.80%
Rate of Mortality:	
Non-retired Members:	
RP-2000 Male and Female Mortality Tables for Active Employees	
projected to 2020 by scale AA	
Retired Members:	
RP-2000 Male and Female Mortality Tables for Healthy Annuitants	
projected to 2020 by scale AA	

#### **Long-Term Expected Rate of Return**

The long-term expected rate of return on NNERF OPEB investments was determined using best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation), developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The annual money weighted rate of return net of investment fees for fiscal year 2018 was 11.29%. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of June 30, 2018 are summarized in the following table:

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2018

Asset Class	Long-Term Expected Real Rate of Return
Large Cap Equities	4.6%
Mid Cap Equities	7.3%
Developed Markets Equities	3.8%
Emerging Markets Equities	7.9%
Cash	-2.8%

#### Discount Rate and Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The discount rate used to measure the total OPEB liability was 7.50%.

The projection of cash flows used to determine the discount rate assumed that contributions from the City will be made at rates equal to the actuarially determined contribution rates.

Based on these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following presents the net OPEB liability of the City, calculated using the discount rate of 7.50%, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percent point lower (6.50%) or one percent point higher (8.50%) than the current rate:

	1% Decrease 6.50%	Discount Rate 7.50%	1% Increase 8.50%
Total OPEB liability	\$ 135,535,583	\$ 122,243,009	\$ 111,101,586
Plan fiduciary net position	31,531,526	31,531,526	31,531,526
Net OPEB Liability	<u>\$ 104,004,057</u>	<u>\$ 90,711,483</u>	<u>\$ 79,570,060</u>
Plan fiduciary net position as a Percentage of the Total OPEB Liability	23.3%	25.8%	28.4%

Detailed information about the OPEB Plan is available in the separately issued NNRF financial report.

#### Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

Changes in the healthcare trends affect the measurement of the Total OPEB liability (TOL). Lower healthcare trends produce a lower TOL and higher healthcare trends produce a higher TOL. The table below shows the sensitivity of the collective NOL to the healthcare trends. Note that the healthcare trend is limited by the City's cost of living formula, which is related to the inflation assumption.

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

	Healthcare		
	1% Decrease	Trend	1% Increase
Total OPEB liability	\$ 111,376,955	\$ 122,243,009	\$ 135,096,756
Plan fiduciary net position	31,531,526	31,531,526	31,531,526
Net OPEB Liability	<u>\$ 79,845,429</u>	<u>\$ 90,711,483</u>	<u>\$ 103,565,230</u>

Plan fiduciary net position as a			
Percentage of the Total OPEB Liability	28.3%	25.8%	23.3%

A one percent decrease in the healthcare trends decreases the TOL by approximately 9% and increases the collective NOL by approximately 12%. A one percent increase in the discount rate decreases the TOL by approximately 11% and decreases the collective NOL by approximately 14%.

### Changes in the Net OPEB Liability

The City's change in net OPEB liability to the OPEB Fund for 2017 was as follows:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
<b>Balances at June 30, 2016</b>	\$ 122,105,738	\$ 27,461,851	\$ 94,643,887
<b>Changes for the year:</b>			
Service cost	811,867	-	811,867
Interest	8,837,567	-	8,837,567
Contributions - employer	-	8,240,000	(8,240,000)
Net investment income	-	5,402,335	(5,402,335)
Benefit payments	(9,512,163)	(9,512,163)	-
Administrative expenses	-	(60,497)	60,497
<b>Net changes</b>	<u>137,271</u>	<u>4,069,675</u>	<u>(3,932,404)</u>
<b>Balances at June 30, 2017</b>	<u>\$ 122,243,009</u>	<u>\$ 31,531,526</u>	<u>\$ 90,711,483</u>

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

	June 30, 2017		
Activities	Contributions	Net Pension Liability	Proportionate Share
Governmental Activities	\$ 7,235,750	\$ 79,656,021	87.81%
Business-type Activities	1,004,250	11,055,462	12.19%
<b>Total</b>	<u>\$ 8,240,000</u>	<u>\$ 90,711,483</u>	<u>100.00%</u>

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

### OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018 the City recognized OPEB expense of \$7,021,010. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Governmental Activities		Business-type Activities		Total Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflow of Resources
Employer contributions subsequent to measurement date	\$ 7,235,750	\$ -	\$ 1,004,250	\$ -	\$ 8,240,000	\$ -
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 2,382,717	\$ -	\$ 330,697	\$ -	\$ 2,713,414

\$8,240,000 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the Fiscal Year ending June 30, 2019.

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

#### Year ended June 30:

2019	\$ (678,353)
2020	(678,353)
2021	(678,353)
2022	(678,355)
	<u>\$ (2,713,414)</u>

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

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

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

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

##### **Plan Description**

The LOD was established by the 2010 Appropriation Act of the Virginia General Assembly, and provides health, dental, and vision insurance benefits for public safety employees who are injured in the line of duty.

Effective July 1, 2017, the Virginia Department of Human Resource Management (DHRM) became responsible for administration of the premium-free health benefits provided to eligible LODA recipients. All LODA eligible members and their eligible family members are covered under one State Program, even if the entity previously elected to not participate in the State LODA Plan.

For purposes of the disclosures that follow, this event is not reflected. The disclosures are a roll-forward of the July 1, 2016 valuation results, which do not reflect the plan change, and the magnitude of the change has not been measured yet. This change will be reflected in the June 30, 2018 actuarial GAAP report. There were no significant events between the valuation date and the measurement date, so the updated procedures only included the addition of service cost and interest cost offset by actual benefit payments as permitted under GAAP.

There is no formal trust arrangement in place as of June 30, 2018.

##### **Benefits Provided**

The Virginia Line of Duty Act (LODA) provides benefits to eligible family members of eligible employees and volunteers killed in the line of duty. In addition, there are benefits for those eligible employees and volunteers who are disabled in the line of duty and their eligible family members.

For survivors of an individual killed in the line of duty, a one-time death benefit payment to surviving beneficiaries and premium-free LODA Health Benefits Plans coverage for eligible family members administered by DHRM. For disabled individuals and families, premium-free LODA Health Benefits Plans coverage for disabled individuals and their eligible family members.

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

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

June 30, 2018

#### **Employees Covered by Benefit Terms**

City membership as of the valuation date in the plan consisted of:

**July 1, 2016**

<b>Active Employees</b>	
Count	<u>1,171</u>
<b>Retirees and Spouses - With Medical Coverage</b>	
Non Medicare Eligible	18
Medicare Eligible	<u>4</u>
<b>Total</b>	<u>22</u>
With Dental Coverage	20
With Vision Coverage	22

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

The Plan is funded on a pay-go basis, so there is no actuarially determined contribution. The City pays all claims and expenses related to the LOD Plan when incurred.

The actual cost to the City was \$327,516 for the year ending June 30, 2018.

#### **Net OPEB Liability**

The City's net OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation performed as of June 30, 2016, using an updated actuarial assumption, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

#### **Actuarial Methods and Assumptions**

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

Actuarial valuation date	July 1, 2016
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Open
Remaining amortization period	30 years
Asset valuation method	Market Value



## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2018

Actuarial assumptions:

Investment rate of return	3.58%
Rate of salary increases	3.00%
Ultimate rate of medical inflation	4.25%
Inflation	2.80%

#### Discount Rate and Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The discount rate used to measure the total OPEB liability was 3.58%.

This Plan uses the Bond Buyer GO 20-Bond Municipal Bond Index to satisfy the requirements within GAAP. As this index is issued weekly, the value closest to but not after the reporting date is used in determining the appropriate rate. Based on this practice, the municipal bond rate at June 30, 2016 was 2.85% and the municipal bond rate at June 29, 2017 was 3.58%.

The following presents the net OPEB liability of the City, calculated using the discount rate of 3.58%, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percent point lower (2.58%) or one percent point higher (4.58%) than the current rate:

	1% Decrease 2.58%	Discount Rate 3.58%	1% Increase 4.58%
Total OPEB liability	\$ 11,685,088	\$ 9,716,974	\$ 8,212,220
Plan fiduciary net position	2,508,498	2,508,498	2,508,498
Net OPEB Liability	<u>\$ 9,176,590</u>	<u>\$ 7,208,476</u>	<u>\$ 5,703,722</u>

Plan fiduciary net position as a			
Percentage of the Total OPEB Liability	21.5%	25.8%	30.5%

#### Sensitivity of the Net OPEB Liability to Changes in Trend Rates

Changes in the healthcare trends affect the measurement of the TOL. Lower healthcare trends produce a lower TOL and higher healthcare trends produce a higher TOL. The table below shows the sensitivity of the collective NOL to the healthcare trends. Note that the healthcare trend is limited by the City's cost of living formula, which is related to the inflation assumption.

	Trend Minus 1%	Baseline Trends	Trend Plus 1%
Total OPEB liability	\$ 8,140,199	\$ 9,716,974	\$ 11,752,830
Plan fiduciary net position	2,508,498	2,508,498	2,508,498
Net OPEB Liability	<u>\$ 5,631,701</u>	<u>\$ 7,208,476</u>	<u>\$ 9,244,332</u>

Plan fiduciary net position as a			
Percentage of the Total OPEB Liability	30.8%	25.8%	21.3%

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

A one percent decrease in the healthcare trends decreases the TOL by approximately 16% and decreases the NOL by approximately 22%. A one percent increase in the healthcare trend increases the TOL by approximately 21% and increases the NOL by approximately 28%.

### Changes in the Net OPEB Liability

The City's change in net OPEB liability of the LOD Fund for 2017 was as follows:

	<b>Total OPEB Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net OPEB Liability (a)-(b)</b>
<b>Balances at June 30, 2016</b>	\$ 9,917,708	\$ 2,540,464	\$ 7,377,244
<b>Changes for the year:</b>			
Service cost	1,130,417	-	1,130,417
Interest	311,181	-	311,181
Differences between expected and actual experience	-	-	-
Changes of assumptions	(1,381,476)	-	(1,381,476)
Contributions - employer	-	256,300	(256,300)
Contributions - member	-	-	-
Net investment income	-	19,499	(19,499)
Benefit payments	(260,856)	(260,856)	-
Administrative expenses	-	(46,909)	46,909
<b>Net changes</b>	<u>(200,734)</u>	<u>(31,966)</u>	<u>(168,768)</u>
<b>Balances at June 30, 2017</b>	<u>\$ 9,716,974</u>	<u>\$ 2,508,498</u>	<u>\$ 7,208,476</u>

### OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the City recognized OPEB expense of \$1,161,010. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions subsequent to measurement date	\$ 300,000	\$ -
Changes in assumptions	\$ -	\$ 1,208,791
Net difference between projected and actual earnings on OPEB plan investments	\$ 135,313	\$ -

\$300,000 reported as deferred outflows of resources related to OPEB resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net OPEB Liability in the Fiscal Year ending June 30, 2019. Amounts reported as deferred outflows and deferred inflows of resources will be recognized in OPEB expense as follows:

### Year ended June 30:

2019	\$ (138,857)
2020	(138,857)
2021	(138,857)
2022	(138,856)
2023	(172,685)
Thereafter	(345,366)
<b>Total</b>	<b>\$ (1,073,478)</b>

### (c) VRS Group Life Insurance Program

#### Plan Description

The VRS Group Life Insurance (GLI) Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI Program was established pursuant to §51.1-500 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The GLI Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers.

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the GLI Program upon employment. This plan is administered by the VRS, along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2018

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Program.

#### Benefits Provided

The specific information for GLI Program, including eligibility, coverage and benefits is set out in the table below:

GLI PROGRAM PLAN PROVISIONS
<p><b>Eligible Employees</b></p> <p>The GLI Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:</p> <ul style="list-style-type: none"><li>• City of Richmond</li><li>• City of Portsmouth</li><li>• City of Roanoke</li><li>• City of Norfolk</li><li>• Roanoke City Schools Board</li></ul> <p>Basic group life insurance coverage is automatic upon employment. Coverage end for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.</p>
<p><b>Benefit Amounts</b></p> <p>The benefits payable under the GLI Program have several components.</p> <ul style="list-style-type: none"><li>• <b>Natural Death Benefit</b> – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.</li><li>• <b>Accidental Death Benefit</b> – The accidental death benefit is double the natural death benefit.</li><li>• <b>Other Benefit Provisions</b> – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:<ul style="list-style-type: none"><li>o Accidental dismemberment benefit</li><li>o Safety belt benefit</li><li>o Repatriation benefit</li><li>o Felonious assault benefit</li><li>o Accelerated death benefit option</li></ul></li></ul>

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2018

#### **Reduction in benefit Amounts**

The benefit amounts provided to members covered under the GLI Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.

#### **Minimum Benefit Amount and Cost-of Living Adjustment (COLA)**

For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.

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

The contribution requirements for the GLI Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% ( $1.31\% \times 60\%$ ) and the employer component was 0.52% ( $1.31\% \times 40\%$ ). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions by the City to the GLI Program were \$337,868 and \$290,899 for the years ended June 30, 2018 and June 30, 2017, respectively.

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## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2018

#### Net GLI OPEB Liability

The net OPEB liability (NOL) for the GLI Program represents the program's total OPEB liability determined in accordance with GAAP, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the GLI Program is as follows (amounts expressed in thousands):

	<b>Group Life Insurance OPEB Program</b>
Total GLI OPEB Liability	\$ 2,942,426
Plan Fiduciary Net Position	1,437,586
Employers' Net GLI OPEB Liability	<u>\$ 1,504,840</u>

Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%
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The total GLI OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GAAP in the System's notes to the financial statements and required supplementary information.

#### Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary increases, including inflation –	
General state employees	3.5% – 5.35%
Teachers	3.5% – 5.95%
SPORS employees	3.5% – 4.75%
VaLORS employees	3.5% – 4.75%
JRS employees	4.5%
Locality – General employees	3.5% – 5.35%
Locality – Hazardous Duty employees	3.5% – 4.75%
Investment rate of return	7.0%, net of investment expenses, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more

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

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

June 30, 2018

than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of the OPEB liabilities.

#### **Mortality rates – Non-Largest Ten Locality Employers - General Employees**

##### **Pre-Retirement:**

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

##### **Post-Retirement:**

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

##### **Post-Disablement:**

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

#### **Mortality rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees**

##### **Pre-Retirement:**

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2018

#### Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

#### Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

#### Long-Term Expected Rate of Return

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



# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Avg Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
	Inflation		2.50%
	*Expected arithmetic nominal return		7.30%

\* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

### Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%.

The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates.

Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

### Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the employer's proportionate share of the net GLI

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	<b>1% Decrease 6.00%</b>	<b>Current Discount Rate 7.00%</b>	<b>1% Increase 8.00%</b>
Employer's proportionate share of the GLI Program Net OPEB Liability	\$ 5,903,000	\$ 4,564,000	\$ 3,479,000

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

	June 30, 2017		
<b>Activities</b>	<b>Contributions</b>	<b>Net Pension Liability</b>	<b>Proportionate Share</b>
Governmental Activities	\$ 268,840	\$ 4,290,160	94.00%
Business-type Activities	17,160	273,840	6.00%
<b>Total</b>	<b>\$ 286,000</b>	<b>\$ 4,564,000</b>	<b>100.00%</b>

### GLI OPEB Liabilities, GLI OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Program OPEB

At June 30, 2018, the City reported a liability of \$4,564,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the City's proportion was .30329% as compared to .26753% at June 30, 2016.

For the year ended June 30, 2018, the City recognized GLI OPEB expense of \$148,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

**CITY OF NEWPORT NEWS, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

	<b>Governmental Activities</b>		<b>Business- type Activities</b>		<b>Total Activities</b>	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Employee contributions subsequent to measurement date	\$ <u>317,596</u>	\$ <u>-</u>	\$ <u>20,272</u>	\$ <u>-</u>	\$ <u>337,868</u>	\$ <u>-</u>
Differences between expected and actual experience	\$ <u>-</u>	\$ <u>94,940</u>	\$ <u>-</u>	\$ <u>6,060</u>	\$ <u>-</u>	\$ <u>101,000</u>
Net difference between projected and actual earnings on GLI OPEB program investments	\$ <u>-</u>	\$ <u>161,680</u>	\$ <u>-</u>	\$ <u>10,320</u>	\$ <u>-</u>	\$ <u>172,000</u>
Changes in assumptions	\$ <u>-</u>	\$ <u>220,900</u>	\$ <u>-</u>	\$ <u>14,100</u>	\$ <u>-</u>	\$ <u>235,000</u>
Changes in proportion	\$ <u>497,260</u>	\$ <u>-</u>	\$ <u>31,740</u>	\$ <u>-</u>	\$ <u>529,000</u>	\$ <u>-</u>

\$337,868 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

**Year ended June 30:**

2019	\$ (8,000)
2020	(8,000)
2021	(8,000)
2022	(8,000)
2023	35,000
Thereafter	18,000
<b>Total</b>	<u><u>\$ 21,000</u></u>

**GLI Program Fiduciary Net Position**

Detailed information about the GLI Program's Fiduciary Net Position is available in the separately issued VRS 2017 CAFR. A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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

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

June 30, 2018

#### **Payables to the VRS GLI OPEB Plan**

At June 30, 2018, the City did not have a payable to the VRS GLI OPEB plan.

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

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

Employees of the City, except those of Schools, may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Sec. 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments). Under the Traditional Plan, employees may elect to defer a portion of their salaries and postpone paying taxes on the deferred portion until those funds are withdrawn by the employee. The traditional deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency. Under the Roth Plan, employees may elect to defer a portion of their salaries on an after tax basis. Roth deferrals and associated earnings can be withdrawn tax free if certain criteria are met.

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

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

All full-time employees of the City hired after March 1, 2010 (except Schools employees) are automatically enrolled in the HRA Plan adopted under the provision of the IRS Notice 2002-45 and Revenue Ruling 2002-41. Under the plan, the City contributes 3% of the average City salary into each employee's HRA account. For fiscal 2018, based on an average City salary of \$51,242, the City contributed \$1,537 per participant for a total of \$2,228,460 to the HRA accounts. The accumulated amounts are available to participants at retirement or at age 55, if terminated prior to reaching retirement eligibility. The Plan reimburses the participant, the participant's spouse, and dependents for insurance premiums or other medical payments expended for permissible benefits described under the plan. HRA participants cannot be members of the City's OPEB Fund.

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

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

### (11) Self Insurance

#### (a) Medical Benefits

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

Changes in the medical incurred but not reported amount during the fiscal years ended June 30, 2018 and 2017 for the City and the Public Schools were as follows:

	City		Public Schools	
	2018	2017	2018	2017
Claims payable at beginning of year	\$ 3,497,000	3,263,000	3,078,000	2,827,000
Claims and changes in estimates	37,305,914	41,062,139	28,348,765	28,355,880
Claim payments	(37,584,914)	(40,828,139)	(28,832,765)	(28,104,880)
Claims payable at end of year	<u>\$ 3,218,000</u>	<u>\$ 3,497,000</u>	<u>2,594,000</u>	<u>3,078,000</u>

#### (b) Workers' Compensation

The City self-insures for workers' compensation through the General Fund up to \$1,750,000 per claim. The School Board has discontinued excess insurance coverage, effective July 1, 2006. Expenditures are charged to the various departments at amounts that approximate what third-party insurers would have charged. Amounts due in future years on claims made as of June 30, 2018 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, 2018 and 2017 for the City and the Public Schools.

	City		Public Schools	
	2018	2017	2018	2017
Claims payable at beginning of year	\$ 10,941,802	11,512,430	5,332,357	4,895,770
Claims and changes in estimates	1,402,338	1,859,162	1,173,032	1,819,768
Claim payments	(1,930,523)	(2,429,790)	(1,172,994)	(1,383,181)
Claims payable at end of year	<u>\$ 10,413,617</u>	<u>10,941,802</u>	<u>5,332,395</u>	<u>5,332,357</u>

A loss analysis was conducted by Oliver Wyman Actuarial Consulting, Inc. on this fund. The total actuarially computed liability as of June 30, 2018 for the City and School Board was determined to be approximately \$10.4 million and \$5.3 million, respectively.

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2018

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

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

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

<b>Auto &amp; General Liability</b>	<b>City</b>	
	<b>2018</b>	<b>2017</b>
Claims payable at beginning of year	\$ 1,602,759	\$ 2,256,299
Claims and changes in estimates	1,004,069	124,272
Claim payments	(975,995)	(777,812)
Claims payable at end of year	<u>\$ 1,630,833</u>	<u>\$ 1,602,759</u>

The auto and general liability claims increased slightly from \$1.60 million to \$1.63 million.

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

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

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

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

The City is involved in several lawsuits arising in the ordinary course of operations. The City is self-insured with respect to automotive liability, general liability, and property damage and workers' compensation. It is the opinion of City management, based on the advice of the City Attorney, that any losses incurred as a result of claims not included in accrued liabilities as of June 30, 2018, will not be material to the financial statements.

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

Encumbrance accounting, the recording of purchase orders, contracts, and other monetary commitments in order to reserve an applicable portion of an appropriation is used as an extension of formal budgetary control by the City. At June 30, 2018, the City had outstanding encumbrances as follows:

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

### General Fund

General government	\$ 925,346
Self-insurance	432
Judicial	24,079
Public safety	569,283
Public works	1,128,268
Health and welfare	70,750
Parks, recreation and cultural	80,714
Community development	1,364
Total General Fund	<u>2,800,236</u>

### Bond Fund

Public safety	6,970
Public works	12,393,541
Health and welfare	4,377
Parks, recreation and cultural	439,705
Community development	34,245,808
Total Bond Fund	<u>47,090,401</u>

### Capital Projects Other Federal and State Fund

Public works	51,688,143
Parks, recreation and cultural	168,148
Total Capital Projects Other Federal and State Fund	<u>51,856,291</u>

### Nonmajor governmental funds

General government	2,866,583
Public safety	4,000
Public works	722,299
Parks, recreation and cultural	429,898
Community development	294,403
Total nonmajor governmental funds	<u>4,317,183</u>

Total	<u><u>\$ 106,064,111</u></u>
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## (13) Jointly Governed Organizations and Joint Ventures

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

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

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

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

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

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

**June 30, 2018**

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

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

The HREDA is a non-profit, public-private partnership that aggressively markets Virginia's Hampton Roads region as the primary region of choice for economic investment and business expansion. All HREDA business attraction initiatives and activities are designed to promote the jurisdictions of Chesapeake, Franklin, Gloucester County, Hampton, Isle of Wight County, James City County, Newport News, Norfolk, Poquoson, Portsmouth, Southampton County, Suffolk, Virginia Beach, Williamsburg and York County, Virginia. The business affairs are managed by a Board of not less than fifty or more than 300 Directors. The City's Mayor and the Director of E/IDA are board members. HREDA receives funding from both private and public entities. Newport News contributed \$173,265 in FY 18. Separate financial statements are available from the HREDA, 500 Main Street, Suite 1300, Norfolk, Virginia 23510.

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

The City has an accumulated deficit in the Nonmajor Combining Statement of Revenues, Expenditures and Changes in Fund Balance as of June 30, 2018 of \$160,212 for the Special Events fund and \$280,133 for the Animal Shelter fund. The Special Events fund deficit is the result of expenditures exceeding revenue by \$86,153 and \$74,059 for the years ended June 30, 2018 and 2017, respectively. This deficit does not indicate the Special Events fund is facing financial difficulty. The Animal Shelter fund deficit is the result of operating expenditures exceeding budgeted amounts in fiscal years 2016 and 2018. Fiscal year 2016 was the first full year of operations. As a result, budgeted amounts were inadequate to cover unforeseen operating overages. Fund balance increased by \$14,694 in fiscal year 2017; however, expenditures exceeded revenue by \$11,806 for fiscal year 2018, thus increasing the accumulated deficit from \$268,327 to \$280,133. This deficit does not indicate the Animal Shelter fund is facing financial difficulty.

#### **(15) Tax Abatements**

The EDA administers a Local Tourism Zone grant program which provides companies, if meeting the eligibility criteria, to a 100% reimbursement of business license tax and between 40% to 50% reimbursement of food and beverage tax revenues and transient taxes paid by the company. The EDA negotiates business license tax and food and beverage tax abatements on an individual basis. The City has tax abatement agreements to a restaurant for opening and investing in a location within the tourism zone. The abatements for the fiscal years ended June 30 were as follows:



# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2018

<b>Fiscal Year Ended</b>	<b>Amount of Taxes Abated</b>
June 30, 2018	\$ 103,592
June 30, 2017	\$ 51,996
June 30, 2016	\$ 48,929
June 30, 2015	\$ 48,759
June 30, 2014	\$ 20,337

The EDA administers an Expansion/Relocation Cost Reduction (ERCR) Incentive program within the City of Newport News. The program is a customized incentive available to companies in targeted industries investing \$2.5 million or more in capital investment, machinery and tools and/or business personal property. The company must also create at least twenty-five (25) new full-time jobs meeting a minimum salary requirement. The City has tax abatement agreements with three entities as of June 30, 2018.

<b>Industry</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Automotive manufacturer	\$ 115,395	55,136	186,438	472,906	632,945
Industrial digital imaging	1,379,246	1,515,016	1,092,673	893,688	697,173
Food processor and distributor	12,568	34,365	46,983	65,053	97,790
	<u>\$ 1,507,209</u>	<u>1,604,517</u>	<u>1,326,094</u>	<u>1,431,647</u>	<u>1,427,908</u>

### (16) Subsequent Events

Subsequent events have been analyzed through November 21, 2018 noting the following:

#### E/IDA

The Authorities leased an additional 3,862 square feet of space in Rouse Tower to the City of Newport News Department of Human Services making the total lease space 118,058 square feet consistent with current lease terms.

The Authorities were awarded a \$480,000 Industrial Revitalization Fund grant from the Virginia Department of Housing and Community Development to fund and renovate 2506 Jefferson Avenue as a location for a co-working space which is identified as a Critical Community Improvement in the Housing and Urban Development Choice Neighborhood Initiative Transformation Plan that the City is undertaking. This co-working space will provide small businesses and entrepreneurs with technical assistance, business management workshops and expert advice on various topics such as business planning, industry research, accounting and capital sources.

**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2018

The E/IDA authorized the issuance of a Request for Qualifications seeking a highly experienced design/development/build team to plan, design, build and market a premier residential community at the 285-acre E/IDA-owned Endview tract located at 350 Yorktown Road.

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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, 2018

	<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	\$ 184,500,000	184,500,000	180,361,609	(4,138,391)
Real and personal public service corporation property taxes	6,447,148	6,447,148	6,761,834	314,686
Personal property taxes	55,093,000	55,093,000	55,395,948	302,948
Machinery and tools taxes	20,600,000	20,600,000	22,002,248	1,402,248
Penalties and interest	1,419,000	1,419,000	1,588,707	169,707
Total general property taxes	<u>268,059,148</u>	<u>268,059,148</u>	<u>266,110,346</u>	<u>(1,948,802)</u>
Other local taxes:				
E-911 service revenue	726,000	726,000	746,818	20,818
Telecom sales taxes	11,200,000	11,200,000	10,685,005	(514,995)
Local sales and use taxes	24,990,000	24,990,000	25,693,286	703,286
Consumers' utility taxes	6,350,000	6,350,000	6,428,968	78,968
Consumption tax	688,000	688,000	554,807	(133,193)
Business license taxes	17,370,000	17,370,000	17,239,148	(130,852)
Rental car taxes	1,160,000	1,160,000	1,110,324	(49,676)
Motor vehicle license	4,200,000	4,200,000	4,273,220	73,220
Bank stock taxes	850,000	850,000	1,018,617	168,617
Taxes on recordation and wills	1,985,000	1,985,000	1,477,452	(507,548)
Tobacco taxes	5,000,000	5,000,000	4,576,884	(423,116)
Hotel and motel room taxes	4,459,200	4,459,200	4,345,781	(113,419)
Restaurant food taxes	25,900,000	25,900,000	26,263,697	363,697
Tourism zone taxes	75,700	75,700	93,935	18,235
Amusement taxes	943,000	943,000	984,277	41,277
Total other local taxes	<u>105,896,900</u>	<u>105,896,900</u>	<u>105,492,219</u>	<u>(404,681)</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	50,000	50,000	47,482	(2,518)
Permits and other licenses	3,504,122	3,504,122	3,958,246	454,124
Total permits, privilege fees, and regulatory licenses	<u>3,554,122</u>	<u>3,554,122</u>	<u>4,005,728</u>	<u>451,606</u>
Fines and forfeitures	<u>1,665,820</u>	<u>1,665,820</u>	<u>1,741,124</u>	<u>75,304</u>
Revenue from use of money and property:				
Revenue from use of money	533,811	533,811	1,922,999	1,389,188
Revenue from use of property	2,025,758	2,025,758	1,998,504	(27,254)
Total revenue from use of money and property	<u>2,559,569</u>	<u>2,559,569</u>	<u>3,921,503</u>	<u>1,361,934</u>
Charges for services:				
Court costs	984,097	984,097	887,344	(96,753)
Law enforcement and traffic control	87,500	87,500	84,159	(3,341)
Fire and rescue services	4,530,000	4,530,000	4,368,553	(161,447)
Information Technology	1,757,335	1,757,335	1,757,335	-
Parks and recreation	7,494,813	7,494,813	7,088,401	(406,412)
Cultural enrichment	250,664	250,664	134,542	(116,122)
Self-insurance premiums	2,534,267	2,534,267	2,422,489	(111,778)
Library	51,000	51,000	39,251	(11,749)
Planning and community development	2,000	2,000	1,108	(892)
Indirect costs	4,863,218	4,863,218	5,014,257	151,039
Animal services	43,318	43,318	42,458	(860)
Applied research center	283,356	283,356	283,346	(10)
Total charges for services	<u>\$ 22,881,568</u>	<u>22,881,568</u>	<u>22,123,243</u>	<u>(758,325)</u>

(continued)

**CITY OF NEWPORT NEWS, VIRGINIA**  
Required Supplementary Information  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual (Budget Basis)  
Year ended June 30, 2018

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Recovered costs:				
Health department	\$ 24,750	24,750	224,946	200,196
Juvenile detention home	4,255,440	4,255,440	4,512,225	256,785
City jail	1,472,901	1,472,901	1,049,098	(423,803)
Sewer assessments - debt service	19,000	19,000	118,383	99,383
Total recovered costs	<u>5,772,091</u>	<u>5,772,091</u>	<u>5,904,652</u>	<u>132,561</u>
Miscellaneous revenues:				
Payments in lieu of taxes	2,731,015	2,731,015	2,741,482	10,467
Miscellaneous	3,060,913	3,060,913	2,421,520	(639,393)
Total miscellaneous revenues	<u>5,791,928</u>	<u>5,791,928</u>	<u>5,163,002</u>	<u>(628,926)</u>
Total revenues from local sources	<u>416,181,146</u>	<u>416,181,146</u>	<u>414,461,817</u>	<u>(1,719,329)</u>
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' taxes	65,000	65,000	64,177	(823)
Mobile home titling taxes	85,000	85,000	58,112	(26,888)
Tax on deeds	459,000	459,000	388,712	(70,288)
State rebate – recording tax	519,000	519,000	444,196	(74,804)
DCJP grants for law enforcement	9,023,580	9,023,580	9,023,580	-
Total noncategorical aid	<u>10,151,580</u>	<u>10,151,580</u>	<u>9,978,777</u>	<u>(172,803)</u>
Shared expenses:				
Technology trust fund	85,877	85,877	85,877	-
Commonwealth's Attorney	1,897,055	1,897,055	1,851,567	(45,488)
Sheriff	7,420,134	7,420,134	7,566,197	146,063
Commissioner of the Revenue	393,665	393,665	395,974	2,309
Treasurer	298,696	298,696	350,818	52,122
Registrar/Electoral Board	59,460	59,460	59,647	187
Total shared expenses	<u>10,154,887</u>	<u>10,154,887</u>	<u>10,310,080</u>	<u>155,193</u>
Categorical aid:				
Welfare	23,906,012	23,906,012	25,530,286	1,624,274
Emergency medical service funds	155,000	155,000	-	(155,000)
Library	174,627	174,627	173,649	(978)
Other	-	-	124,783	124,783
Total categorical state aid	<u>24,235,639</u>	<u>24,235,639</u>	<u>25,828,718</u>	<u>1,593,079</u>
Total revenue from the Commonwealth	<u>44,542,106</u>	<u>44,542,106</u>	<u>46,117,575</u>	<u>1,575,469</u>
Other financing sources:				
Transfers from other funds	9,500,000	9,500,000	9,500,000	-
Transfers from fund balance	5,200,000	5,200,000	-	(5,200,000)
Total revenues	<u>\$ 475,423,252</u>	<u>475,423,252</u>	<u>470,079,392</u>	<u>(5,343,860)</u>

(continued)

**CITY OF NEWPORT NEWS, VIRGINIA**  
Required Supplementary Information  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual (Budget Basis)  
Year ended June 30, 2018

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures:				
General government administration:				
Legislative:				
City Council	\$ 275,099	275,269	275,509	(240)
City Clerk	349,359	349,502	348,885	617
Total legislative	624,458	624,771	624,394	377
General and financial administration:				
City Manager	1,361,793	1,364,837	1,262,675	102,162
Human resources	1,211,035	1,212,511	1,092,266	120,245
Employee benefits	363,654	363,654	361,524	2,130
Medical services	57,157	57,157	8,810	48,347
City Attorney	1,932,374	1,932,770	1,986,676	(53,906)
Internal Auditor	546,848	551,501	518,956	32,545
Commissioner of the Revenue	2,622,772	2,623,472	2,292,218	331,254
Real Estate Assessor	1,677,507	1,677,507	1,536,278	141,229
City Treasurer	2,276,081	2,411,187	2,407,627	3,560
Finance	3,111,612	3,126,834	2,926,397	200,437
Budget and evaluation	735,423	735,461	621,740	113,721
Auto self-insurance	1,506,000	1,506,000	1,711,340	(205,340)
General liability self-insurance	1,451,000	1,451,000	1,651,345	(200,345)
Workers' compensation	3,171,000	3,171,000	2,317,943	853,057
Information technology	9,953,144	9,955,998	9,667,208	288,790
Total general and financial administration	31,977,400	32,140,889	30,363,003	1,777,886
Board of Elections -				
Registrar	466,898	474,258	474,114	144
Nondepartmental:				
Appointed boards	111,544	111,544	78,257	33,287
Community support	2,451,089	2,451,089	2,436,013	15,076
Contract community agencies	8,731,432	8,731,432	8,893,629	(162,197)
City development	42,414,130	40,369,027	37,255,107	3,113,920
Contractual services	2,422,622	2,216,847	1,804,047	412,800
Internal services	176,000	48,928	2,462	46,466
Machinery and equipment	792,847	792,847	527,878	264,969
Strategic priorities	1,985,500	1,985,500	2,301,389	(315,889)
Street lighting	500,400	500,400	422,987	77,413
Other	6,250,621	6,360,120	5,455,875	904,245
Total nondepartmental	65,836,185	63,567,734	59,177,644	4,390,090
Total general government administration	98,904,941	96,807,652	90,639,155	6,168,497
Judicial administration:				
Courts:				
Circuit Courts	491,861	507,630	507,384	246
District Courts	158,214	158,214	77,804	80,410
Office of the Magistrate	6,947	6,947	4,131	2,816
Juvenile/Domestic Relations Court	57,000	57,829	52,826	5,003
Clerk of the Circuit Court	1,622,922	1,630,320	1,630,321	(1)
Court services	483,873	484,155	480,043	4,112
Total courts	2,820,817	2,845,095	2,752,509	92,586
Commonwealth's Attorney	4,165,789	4,239,221	4,235,620	3,601
Total judicial administration	\$ 6,986,606	7,084,316	6,988,129	96,187

(continued)

**CITY OF NEWPORT NEWS, VIRGINIA**  
Required Supplementary Information  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual (Budget Basis)  
Year ended June 30, 2018

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 47,339,628	48,226,274	48,343,698	(117,424)
Emergency communications	359,106	328,412	315,673	12,739
Total law enforcement and traffic control	<u>47,698,734</u>	<u>48,554,686</u>	<u>48,659,371</u>	<u>(104,685)</u>
Fire and rescue services:				
Fire department	30,466,847	31,208,947	33,268,090	(2,059,143)
Ambulance and rescue service	2,352,949	2,359,483	2,417,849	(58,366)
Total fire and rescue services	<u>32,819,796</u>	<u>33,568,430</u>	<u>35,685,939</u>	<u>(2,117,509)</u>
Correction and detention:				
Sheriff	21,434,934	21,454,247	21,422,556	31,691
Juvenile detention	8,528,267	8,564,560	8,288,616	275,944
Total correction and detention	<u>29,963,201</u>	<u>30,018,807</u>	<u>29,711,172</u>	<u>307,635</u>
Inspection – codes compliance	3,108,680	3,111,635	3,037,096	74,539
Total public safety	<u>113,590,411</u>	<u>115,253,558</u>	<u>117,093,578</u>	<u>(1,840,020)</u>
Public works:				
Engineering:				
Administration	211,417	326,571	113,453	213,118
Civil services	525,807	958,641	989,797	(31,156)
Technical support	199,281	208,501	174,665	33,836
Site and subdivision services	1,121,904	733,612	697,944	35,668
Transportation services	194,700	55,414	50,193	5,221
Total engineering	<u>2,253,109</u>	<u>2,282,739</u>	<u>2,026,052</u>	<u>256,687</u>
Public works administration	24,531	507,533	485,089	22,444
Maintenance of highways, streets, bridges, and sidewalks	2,299,554	1,460,270	295,751	1,164,519
Maintenance of general buildings and grounds	9,396,777	9,774,878	7,219,125	2,555,753
Total public works	<u>13,973,971</u>	<u>14,025,420</u>	<u>10,026,017</u>	<u>3,999,403</u>
Health and welfare:				
Health -				
Medical services	3,573,682	3,614,183	3,609,914	4,269
Welfare:				
Social services administration	6,720,720	6,720,720	6,548,972	171,748
Financial services	9,170,998	9,180,239	8,136,469	1,043,770
Social work services	13,032,354	13,039,993	14,011,215	(971,222)
Healthy families	1,918,186	1,389,089	1,250,750	138,339
Employment service program	2,212,513	2,266,121	2,281,772	(15,651)
CSA administration	318,685	318,685	328,895	(10,210)
Fuel assistance	27,903	27,903	-	27,903
Youth services	127,217	475,064	502,858	(27,794)
Family and community education	5,892	167,546	199,955	(32,409)
Homeless family services	374,268	374,268	401,799	(27,531)
Cooperative extension	209,897	210,573	208,505	2,068
CHIP program	159,090	159,090	61,764	97,326
Total welfare	<u>34,277,723</u>	<u>34,329,291</u>	<u>33,932,954</u>	<u>396,337</u>
Total health and welfare	<u>\$ 37,851,405</u>	<u>37,943,474</u>	<u>37,542,868</u>	<u>400,606</u>

(continued)

**CITY OF NEWPORT NEWS, VIRGINIA**  
Required Supplementary Information  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual (Budget Basis)  
Year ended June 30, 2018

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Parks, recreation and cultural:				
Parks and recreation:				
Administration	\$ 6,114,355	6,275,665	6,024,751	250,914
Recreation division	2,791,019	2,802,660	2,544,049	258,611
Parks division	3,650,111	3,650,661	3,921,616	(270,955)
Recreation classes	4,735,347	4,735,347	4,810,916	(75,569)
Golf course	1,737,000	1,737,000	1,763,733	(26,733)
Leeward Marina	307,000	307,000	293,541	13,459
Festival support	271,026	273,328	358,059	(84,731)
Tourism, promotion and development	1,563,000	1,563,000	1,662,012	(99,012)
Animal services	611,236	612,891	614,101	(1,210)
Total parks and recreation	<u>21,780,094</u>	<u>21,957,552</u>	<u>21,992,778</u>	<u>(35,226)</u>
Cultural enrichment – museum	1,130,000	1,130,000	1,161,383	(31,383)
Library	4,572,098	4,573,385	4,470,877	102,508
Total parks, recreation and cultural	<u>27,482,192</u>	<u>27,660,937</u>	<u>27,625,038</u>	<u>35,899</u>
Community development:				
Planning and community development:				
Development	1,216,576	1,219,353	1,270,573	(51,220)
Planning	1,251,093	1,255,614	1,219,348	36,266
Communications	1,734,344	1,736,763	1,630,207	106,556
Economic development	4,143,081	4,147,533	3,598,655	548,878
Total community development	<u>8,345,094</u>	<u>8,359,263</u>	<u>7,718,783</u>	<u>640,480</u>
Education:				
General fund transfer to Public Schools	119,000,000	119,000,000	119,000,000	-
Capital projects' transfer to Public Schools	2,000,000	2,000,000	2,000,000	-
Total educations	<u>121,000,000</u>	<u>121,000,000</u>	<u>121,000,000</u>	<u>-</u>
Transfers to other funds:				
Debt service	34,850,491	34,850,491	33,412,987	1,437,504
Capital projects	8,269,714	8,269,714	9,949,575	(1,679,861)
Other	4,168,427	4,168,427	4,280,809	(112,382)
Total transfers to other funds	<u>47,288,632</u>	<u>47,288,632</u>	<u>47,643,371</u>	<u>(354,739)</u>
Total expenditures and transfers to other funds	<u>475,423,252</u>	<u>475,423,252</u>	<u>466,276,939</u>	<u>9,146,313</u>
Deficiency of revenues under expenditures	\$ -	-	3,802,453	<u>3,802,453</u>
Less encumbrances outstanding at June 30, 2017 expended or canceled at June 30, 2018			(3,754,190)	
Add encumbrances outstanding at June 30, 2018			<u>2,800,236</u>	
FY 2018 surplus			2,848,499	
Fund balance at beginning of year			<u>91,833,265</u>	
Fund balance at end of year			<u>\$ 94,681,764</u>	

See accompanying notes to required supplementary information

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

	2017	2016	2015	2014
<b>Total Pension Liability</b>				
Service costs	\$ 9,045,434	9,467,439	9,926,558	10,534,763
Interest	93,983,070	91,489,549	88,917,067	86,803,765
Differences between expected and actual experience	(185,230)	6,473,172	6,665,024	-
Benefit payments, including refunds of member contributions	(75,570,088)	(72,016,569)	(69,527,978)	(67,393,918)
<b>Net change in total pension Liability</b>	<b>27,273,186</b>	<b>35,413,591</b>	<b>35,980,671</b>	<b>29,944,610</b>
<b>Total pension liability - beginning</b>	<b>1,281,164,122</b>	<b>1,245,750,531</b>	<b>1,209,769,860</b>	<b>1,179,825,250</b>
<b>Total pension liability - ending</b>	<b>\$ 1,308,437,308</b>	<b>1,281,164,122</b>	<b>1,245,750,531</b>	<b>1,209,769,860</b>
<b>Plan Fiduciary net position</b>				
Contributions-employer	\$ 39,135,864	39,005,899	33,258,275	29,364,826
Contributions-member	5,987,851	6,416,136	6,738,148	6,558,611
Net investment income	115,173,724	(7,465,822)	26,194,662	113,205,029
Benefit payments, including refunds of member contributions	(75,570,088)	(72,016,569)	(69,527,978)	(67,393,918)
Administrative expense	(952,560)	(921,181)	(1,003,673)	(866,517)
<b>Net change in plan fiduciary net position</b>	<b>\$ 83,774,791</b>	<b>(34,981,537)</b>	<b>(4,340,566)</b>	<b>80,868,031</b>
<b>Plan Fiduciary net position - beginning</b>	<b>815,658,698</b>	<b>850,640,235</b>	<b>854,980,801</b>	<b>774,112,770</b>
<b>Plan Fiduciary net position - ending</b>	<b>\$ 899,433,489</b>	<b>815,658,698</b>	<b>850,640,235</b>	<b>854,980,801</b>
<b>Net Pension liability ending</b>	<b>\$ 409,003,819</b>	<b>465,505,424</b>	<b>395,110,296</b>	<b>354,789,059</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>68.74%</b>	<b>63.67%</b>	<b>68.28%</b>	<b>70.67%</b>
Covered payroll	\$ 113,302,877	118,639,692	123,619,906	129,912,288
Net position liability as a percentage of covered payroll	360.98%	392.37%	319.62%	273.10%

**Note:** This schedule is intended to show information for 10 years. However, additional years will be included as they become available. Per GAAP, net pension liabilities are reported using the measurement date, which is one year prior to the reporting date.

**CITY OF NEWPORT NEWS, VIRGINIA**

Required Supplementary Information

Schedule of Changes in the City's Net Pension Asset and Related Ratios for VRS

Fiscal years ended June 30

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability</b>				
Service costs	\$ 5,556,353	4,831,751	4,219,577	3,376,352
Interest	1,382,295	1,000,116	702,834	441,527
Differences between expected and actual experience	(271,408)	(127,774)	(522,034)	-
Changes of assumptions	(1,239,629)	-	-	-
Benefit payments, including refunds of member contributions	(293,811)	(194,963)	(112,015)	(57,843)
<b>Net change in total pension Liability</b>	<b>5,133,800</b>	<b>5,509,130</b>	<b>4,288,362</b>	<b>3,760,036</b>
<b>Total pension liability - beginning</b>	<b>19,893,984</b>	<b>14,384,854</b>	<b>10,096,492</b>	<b>6,336,456</b>
<b>Total pension liability - ending</b>	<b>\$ <u>25,027,784</u></b>	<b><u>19,893,984</u></b>	<b><u>14,384,854</u></b>	<b><u>10,096,492</u></b>
<b>Plan Fiduciary net position</b>				
Contributions-employer	\$ 2,766,138	2,754,620	2,346,626	3,039,422
Contributions-member	2,685,841	2,326,164	2,054,662	1,685,840
Net investment income	3,322,147	485,326	760,402	1,589,581
Benefit payments, including refunds of member contributions	(293,811)	(194,963)	(112,015)	(57,843)
Administrative expense	(13,687)	(8,716)	(5,937)	(4,461)
Other	(3,225)	(153)	(177)	(83)
<b>Net change in plan fiduciary net position</b>	<b>\$ 8,463,403</b>	<b>5,362,278</b>	<b>5,043,561</b>	<b>6,252,456</b>
<b>Plan Fiduciary net position - beginning</b>	<b>24,443,048</b>	<b>19,080,770</b>	<b>14,037,209</b>	<b>7,784,753</b>
<b>Plan Fiduciary net position - ending</b>	<b>\$ <u>32,906,451</u></b>	<b><u>24,443,048</u></b>	<b><u>19,080,770</u></b>	<b><u>14,037,209</u></b>
<b>Net Pension Asset ending</b>	<b>\$ <u>(7,878,667)</u></b>	<b><u>(4,549,064)</u></b>	<b><u>(4,695,916)</u></b>	<b><u>(3,940,717)</u></b>
<b>Plan fiduciary net position as a percentage of the total net pension asset</b>	<b>131.48%</b>	<b>122.87%</b>	<b>132.64%</b>	<b>139.03%</b>
Covered payroll	\$ 55,753,786	47,926,329	36,397,255	33,287,071
Net position asset as a percentage of covered payroll	14.13%	9.49%	12.90%	11.84%

**Note:** This schedule is intended to show information for 10 years. However, additional years will be included as they become available. Per GAAP, net pension liabilities are reported using the measurement date, which is one year prior to the reporting date.

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

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

**Note:** This schedule is intended to show information for 10 years. However, additional years will be included as they become available. Per GAAP, net pension liabilities are reported using the measurement date, which is one year prior to the reporting date.

**CITY OF NEWPORT NEWS, VIRGINIA**

Required Supplementary Information

Schedule of Changes in the City's Net OPEB Liability and Related Ratios for Line of Duty  
Fiscal years ended June 30

	<u><b>2017</b></u>
<b>Total OPEB Liability</b>	
Service costs	\$ 1,130,417
Interest	311,181
Changes of assumptions	(1,381,476)
Benefit payments, including refunds of member contributions	(260,856)
<b>Net change in total OPEB liability</b>	<u><b>(200,734)</b></u>
<b>Total OPEB liability - beginning</b>	<u>9,917,708</u>
<b>Total OPEB liability - ending</b>	<u><u><b>\$ 9,716,974</b></u></u>
 <b>Plan Fiduciary net position</b>	
Contributions-employer	\$ 256,300
Net investment income	19,499
Benefit payments, including refunds of member contributions	(260,856)
Administrative expense	(46,909)
<b>Net change in plan fiduciary net position</b>	<u><b>\$ (31,966)</b></u>
<b>Plan Fiduciary net position - beginning</b>	<u>2,540,464</u>
<b>Plan Fiduciary net position - ending</b>	<u><b>\$ 2,508,498</b></u>
 <b>Net OPEB liability - ending</b>	<u><u><b>\$ 7,208,476</b></u></u>
 <b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	25.82%
 Covered payroll	\$ 59,195,883
Net OPEB liability as a percentage of covered payroll	12.18%

**Note:** This schedule is intended to show information for 10 years. However, additional years will be included as they become available. Per GAAP, net pension liabilities are reported using the measurement date, which is one year prior to the reporting date.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 40,701	39,262	39,154	40,394	40,628
Contributions in relation to the actuarially determined contribution	<u>40,701</u>	<u>39,136</u>	<u>39,006</u>	<u>33,258</u>	<u>29,365</u>
Contribution deficiency	<u>\$ -</u>	<u>126</u>	<u>148</u>	<u>7,136</u>	<u>11,263</u>
Covered payroll	\$ 108,187	113,303	118,640	123,620	129,912
Contributions as a percentage of Covered payroll	37.62%	34.54%	32.88%	26.90%	22.60%

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 3,075	2,766	2,755	2,347	3,039
Contributions in relation to the contractually required contribution	<u>3,075</u>	<u>2,766</u>	<u>2,755</u>	<u>2,347</u>	<u>3,039</u>
Contribution excess	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered payroll	\$ 64,321	55,754	47,926	36,397	33,287
Contributions as a percentage of Covered payroll	4.78%	4.96%	5.75%	6.45%	9.13%

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

	<u>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 8,240	8,240
Contributions in relation to the actuarially determined contribution	<u>8,240</u>	<u>8,240</u>
Contribution deficiency	<u>\$ -</u>	<u>-</u>
Covered payroll	\$ 95,734	100,619
Contributions as a percentage of Covered payroll	8.61%	8.19%

**Note:** These schedules are intended to show information for 10 years. However, additional years will be included as they become available.

**CITY OF NEWPORT NEWS, VIRGINIA**  
Required Supplementary Information  
**Schedule of City Contributions OPEB GLI**  
(Dollar amounts in thousands)

		<b>2018</b>
Contractually required contribution	\$	<u>338</u>
Contributions in relation to the contractually required contribution		<u>338</u>
Contribution excess	\$	<u><u>-</u></u>
 Covered-employee payroll	 \$	 64,321
Contributions as a percentage of Covered-employee payroll		0.53%

**Note:** These schedules are intended to show information for 10 years.  
However, additional years will be included as they become available.

**CITY OF NEWPORT NEWS, VIRGINIA**  
Required Supplementary Information  
**Schedule of Investment Returns NNERF**  
Year Ended June 30,

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual Money-weighted Rate of Return, Net of Investment Fees	9.92%	14.83%	-1.05%	2.92%	15.08%

**Schedule of Investment Returns OPEB**  
Year Ended June 30,

	<u>2018</u>	<u>2017</u>
Annual Money-weighted Rate of Return, Net of Investment Fees	11.29%	21.23%

**Note:** These schedules are intended to show information for 10 years.  
However, additional years will be included as they become available.

**CITY OF NEWPORT NEWS, VIRGINIA**  
Required Supplementary Information  
Schedule of Employer's Share of Net OPEB Liability Group Life Insurance Program  
Fiscal years ended June 30

	<u><b>2017</b></u>
Employer's Proportion of the NET GLI OPEB Liability	0.30329%
Employer's Proportionate Share of the NET GLI OPEB Liability	\$ 4,564,000
Employer's Covered Payroll	\$ 55,753,786
Employer's Proportionate Share of the Net GLI OPEB Liability as a Percentage of its Covered Payroll	8.19%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%

**Note:** This schedule is intended to show information for 10 years. However, additional years will be included as they become available. Per GAAP, net pension liabilities are reported using the measurement date, which is one year prior to the reporting date.



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

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

Year ended June 30, 2018

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

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

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

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

The City may amend the budget or make transfers between functions and budgetary line items without City Council approval. However, the City may not make transfers or expend any sum of money in excess of City Council appropriations, at the fund level, without the consent of the City Council. The legal level of budgetary control for the General Fund is the fund level; however, management control is exercised over the budget at the budgetary line item level. Appropriations, except for encumbrances and committed or assigned fund balances, lapse at year-end. There were supplemental appropriations made during 2018 for the following reasons: (1) grant matching, (2) funding to meet the increase in operating expenses.

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

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

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

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

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

**Year ended June 30, 2018**

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

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

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

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

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**CITY OF NEWPORT NEWS, VIRGINIA**

Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2018

	Special Revenue						
Assets	Community development	Street maintenance	Economic development	Law library	Stormwater	Solid waste	Wastewater
Cash and cash equivalents	\$ -	-	1,153,735	180,932	11,508,001	4,109,853	4,182,446
Restricted cash	-	-	-	-	-	-	-
Accounts receivable, net	-	-	-	12,216	736,301	1,554,578	1,305,541
Receivable from other governments:							
Virginia	124,308	-	-	-	-	-	-
Federal	358,928	-	-	-	-	-	-
Receivable from other funds	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-
Total assets	\$ 483,236	-	1,153,735	193,148	12,244,302	5,664,431	5,487,987
Liabilities							
Accounts payable	\$ 166,394	-	8,507	633	279,356	364,352	163,774
Accrued liabilities	1,236	-	-	2,441	224,592	151,315	221,933
Unearned revenues	-	-	-	-	-	37,688	-
Payable to other funds	-	-	-	-	-	-	-
Payable to major governmental funds	315,606	-	-	-	-	-	-
Total liabilities	483,236	-	8,507	3,074	503,948	553,355	385,707
Deferred Inflows of Resources							
Unavailable revenue-stormwater fees	-	-	-	-	559,445	-	-
Fund Balances							
Nonspendable	-	-	-	-	-	-	-
Restricted	-	-	-	25	11,180,909	5,111,076	5,102,280
Committed	-	-	1,145,228	190,049	-	-	-
Unassigned	-	-	-	-	-	-	-
Total fund balances	-	-	1,145,228	190,074	11,180,909	5,111,076	5,102,280
Total liabilities, deferred inflows of resources and fund balances	\$ 483,236	-	1,153,735	193,148	12,244,302	5,664,431	5,487,987

(continued)

**CITY OF NEWPORT NEWS, VIRGINIA**

Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2018

	Special Revenue					Capital Projects	Total nonmajor
	Comprehensive Services Act	Criminal Justice Academy	Animal shelter	Special events	Other federal and state	General capital improvements	
<b>Assets</b>							
Cash and cash equivalents	\$ -	170,915	300	-	1,805,987	4,644,094	27,756,263
Restricted cash	-	-	-	-	-	-	-
Accounts receivable, net	-	-	11,772	-	-	1,035,732	4,656,140
Receivable from other governments:							
Virginia	1,213,909	-	-	-	99,316	-	1,437,533
Federal	-	-	-	-	557,847	-	916,775
Receivable from other funds	-	-	-	-	-	15,248,602	15,248,602
Inventory	-	-	4,708	-	-	-	4,708
Total assets	\$ 1,213,909	170,915	16,780	-	2,463,150	20,928,428	50,020,021
<b>Liabilities</b>							
Accounts payable	\$ 1,060,839	7,637	42,427	20,643	177,090	213,344	2,504,996
Accrued liabilities	-	-	37,506	-	35,829	17,040	691,892
Unearned revenues	-	-	-	-	-	-	37,688
Payable to other funds	-	-	-	139,569	-	-	139,569
Payable to major governmental funds	146,473	-	216,980	-	159,925	-	838,984
Total liabilities	1,207,312	7,637	296,913	160,212	372,844	230,384	4,213,129
<b>Deferred Inflows of Resources</b>							
Unavailable revenue-stormwater fees	-	-	-	-	-	-	559,445
<b>Fund Balances</b>							
Nonspendable	-	-	4,708	-	-	-	4,708
Restricted	-	-	-	-	2,090,306	-	23,484,596
Committed	6,597	163,278	8,020	44,570	-	20,698,044	22,255,786
Unassigned	-	-	(292,861)	(204,782)	-	-	(497,643)
Total fund balances	6,597	163,278	(280,133)	(160,212)	2,090,306	20,698,044	45,247,447
Total liabilities, deferred inflows of resources and fund balances	\$ 1,213,909	170,915	16,780	-	2,463,150	20,928,428	50,020,021

**CITY OF NEWPORT NEWS, VIRGINIA**  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
Year ended June 30, 2018

	Special Revenue						
	Community development	Street maintenance	Economic development	Law library	Stormwater	Solid waste	Wastewater
Revenues:							
Intergovernmental:							
Local	\$ 173,232	-	-	-	-	-	-
Virginia	-	16,990,753	-	-	-	25,767	-
Federal	2,018,130	-	-	-	-	-	-
Charges for services	-	-	-	125,286	21,067,792	14,462,752	21,511,505
Interest and rents	-	-	148,060	-	93,785	36,172	32,734
Sale of property	-	-	3,100	-	-	-	-
Local fees and contributions	-	-	-	-	-	-	-
Miscellaneous	-	-	29,277	-	-	8,855	-
Total revenues	2,191,362	16,990,753	180,437	125,286	21,161,577	14,533,546	21,544,239
Expenditures:							
Current operating:							
General government	-	-	-	120,545	-	-	-
Judicial administration	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-
Public works	-	16,990,753	-	-	14,796,701	12,699,393	12,554,482
Health and welfare	-	-	-	-	-	-	-
Education	-	-	-	-	-	-	-
Parks, recreation, and culture	-	-	-	-	-	-	-
Community development	2,191,362	-	187,899	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Total expenditures	2,191,362	16,990,753	187,899	120,545	14,796,701	12,699,393	12,554,482
Excess (deficiency) of revenues over (under) expenditures	-	-	(7,462)	4,741	6,364,876	1,834,153	8,989,757
Other financing sources (uses):							
Transfers in	-	-	-	-	97,897	108,734	35,752
Transfers out	-	-	-	-	(3,992,337)	(409,837)	(5,818,830)
Total other financing sources (uses), net	-	-	-	-	(3,894,440)	(301,103)	(5,783,078)
Net changes in fund balances	-	-	(7,462)	4,741	2,470,436	1,533,050	3,206,679
Fund balances at June 30, 2017	-	-	1,152,690	185,333	8,710,473	3,578,026	1,895,601
Fund balances at June 30, 2018	\$ -	-	1,145,228	190,074	11,180,909	5,111,076	5,102,280

(continued)

**CITY OF NEWPORT NEWS, VIRGINIA**  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
Year ended June 30, 2018

	Special Revenue					Capital Projects	
	Comprehensive Services Act	Criminal Justice Academy	Animal shelter	Special events	Other federal and state	General capital improvements	Total nonmajor
Revenues:							
Intergovernmental:							
Local	\$ -	-	1,068,958	-	232,995	13,000	1,488,185
Virginia	5,325,459	-	-	-	1,270,167	-	23,612,146
Federal	349,953	-	-	-	2,454,984	-	4,823,067
Charges for services	-	117,674	138,726	-	-	-	57,423,735
Interest and rents	-	-	-	-	11,332	27,824	349,907
Sale of Property	-	-	-	-	-	-	3,100
Local fees and contributions	-	-	-	20,000	-	1,992,961	2,012,961
Miscellaneous	-	-	15,746	-	-	-	53,878
Total revenues	5,675,412	117,674	1,223,430	20,000	3,969,478	2,033,785	89,766,979
Expenditures:							
Current operating:							
General government	-	-	-	-	-	-	120,545
Judicial administration	-	-	-	-	466,431	-	466,431
Public safety	-	88,291	-	-	2,629,884	-	2,718,175
Public works	-	-	-	-	82,844	-	57,124,173
Health and welfare	7,894,767	-	-	-	420,918	-	8,315,685
Education	-	-	-	-	-	2,000,000	2,000,000
Parks, recreation, and culture	-	-	1,759,013	691,237	43,805	-	2,494,055
Community development	-	-	-	-	197,497	-	2,576,758
Capital outlay	-	-	-	-	-	9,377,259	9,377,259
Total expenditures	7,894,767	88,291	1,759,013	691,237	3,841,379	11,377,259	85,193,081
Excess (deficiency) of revenues over (under) expenditures	(2,219,355)	29,383	(535,583)	(671,237)	128,099	(9,343,474)	4,573,898
Other financing sources (uses):							
Transfers in	2,240,247	-	1,213,095	585,084	-	11,949,575	16,230,384
Transfers out	-	-	(689,318)	-	-	-	(10,910,322)
Total other financing sources (uses), net	2,240,247	-	523,777	585,084	-	11,949,575	5,320,062
Net changes in fund balances	20,892	29,383	(11,806)	(86,153)	128,099	2,606,101	9,893,960
Fund balances at June 30, 2017	(14,295)	133,895	(268,327)	(74,059)	1,962,207	18,091,943	35,353,487
Fund balances at June 30, 2018	\$ 6,597	163,278	(280,133)	(160,212)	2,090,306	20,698,044	45,247,447

**CITY OF NEWPORT NEWS, VIRGINIA**  
Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual  
Special Revenue Funds  
Year ended June 30, 2018

	Street Maintenance				Economic Development				Law Library				Stormwater			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
Revenues:																
Intergovernmental:																
Local																
Virginia	\$ 16,886,861	16,990,752	16,990,753	1	-	-	-	-	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-	117,867	133,000	125,286	(7,714)	21,374,731	21,374,731	21,067,792	(306,939)
Sale of property	-	-	-	-	15,000	15,000	3,100	(11,900)	-	-	-	-	-	-	-	-
Interest and rents	-	-	-	-	138,984	138,984	148,060	9,076	-	-	-	-	52,000	52,000	93,785	41,785
Miscellaneous	-	-	-	-	16	16	29,277	29,261	15,133	-	-	-	-	-	-	-
Total revenues	16,886,861	16,990,752	16,990,753	1	154,000	154,000	180,437	26,437	133,000	133,000	125,286	(7,714)	21,426,731	21,426,731	21,161,577	(265,154)
Expenditures:																
Current:																
General government	-	-	-	-	-	-	-	-	133,000	133,000	120,545	12,455	-	-	-	-
Public works	16,886,861	16,990,752	16,990,753	(1)	-	-	-	-	-	-	-	-	17,434,394	18,556,948	14,796,701	3,760,247
Parks, recreation, and culture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Community development	-	-	-	-	154,000	197,600	187,899	9,701	-	-	-	-	-	-	-	-
Total expenditures	16,886,861	16,990,752	16,990,753	(1)	154,000	197,600	187,899	9,701	133,000	133,000	120,545	12,455	17,434,394	18,556,948	14,796,701	3,760,247
Transfers In	-	-	-	-	-	-	-	-	-	-	-	-	-	-	97,897	(97,897)
Transfers Out	-	-	-	-	-	-	-	-	-	-	-	-	3,992,337	3,992,337	3,992,337	-
Excess (deficiency) of revenues over (under) expenditures	\$ -	-	-	-	-	(43,600)	(7,462)	36,138	-	-	4,741	4,741	-	(1,122,554)	2,470,436	3,592,990
Fund balances at June 30, 2017			-				1,152,690				185,333				8,710,473	
Fund balances at June 30, 2018		\$ -				\$ 1,145,228				\$ 190,074				\$ 11,180,909		

(continued)

**CITY OF NEWPORT NEWS, VIRGINIA**  
Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual  
Special Revenue Funds  
Year ended June 30, 2018

	Solid Waste				Wastewater				Animal Shelter				Totals			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
Revenues:																
Intergovernmental:																
Local	\$ -	-	-	-	-	-	-	-	1,068,959	1,068,959	1,068,958	(1)	1,068,959	1,068,959	1,068,958	(1)
Virginia	26,500	26,500	25,767	(733)	-	-	-	-	-	-	-	-	16,913,361	17,017,252	17,016,520	(732)
Charges for services	14,931,100	14,931,100	14,462,752	(468,348)	22,599,000	22,599,000	21,511,505	(1,087,495)	115,546	115,546	138,726	23,180	59,138,244	59,153,377	57,306,061	(1,847,316)
Sale of Property	-	-	-	-	-	-	-	-	-	-	-	-	15,000	15,000	3,100	(11,900)
Interest and rents	-	-	36,172	36,172	-	-	32,734	32,734	-	-	-	-	190,984	190,984	310,751	119,767
Miscellaneous	4,400	4,400	8,855	4,455	-	-	-	-	25,800	25,800	15,746	(10,054)	45,349	30,216	53,878	23,662
Total revenues	14,962,000	14,962,000	14,533,546	(428,454)	22,599,000	22,599,000	21,544,239	(1,054,761)	1,210,305	1,210,305	1,223,430	13,125	77,371,897	77,475,788	75,759,268	(1,716,520)
Expenditures:																
Current:																
General government	-	-	-	-	-	-	-	-	-	-	-	-	133,000	133,000	120,545	12,455
Public works	14,552,163	14,578,885	12,699,393	1,879,492	16,747,721	16,829,213	12,554,482	4,274,731	-	-	-	-	65,621,139	66,955,798	57,041,329	9,914,469
Parks, recreation, and culture	-	-	-	-	-	-	-	-	2,423,400	2,423,400	1,759,013	664,387	2,423,400	2,423,400	1,759,013	664,387
Community development	-	-	-	-	-	-	-	-	-	-	-	-	154,000	197,600	187,899	9,701
Total expenditures	14,552,163	14,578,885	12,699,393	1,879,492	16,747,721	16,829,213	12,554,482	4,274,731	2,423,400	2,423,400	1,759,013	664,387	68,331,539	69,709,798	59,108,786	10,601,012
Transfers In	-	-	108,734	(108,734)	-	-	35,752	(35,752)	1,213,095	1,213,095	1,213,095	-	1,213,095	1,213,095	1,455,478	(242,383)
Transfers Out	409,837	409,837	409,837	-	5,851,279	5,851,279	5,818,830	32,449	-	-	689,318	(689,318)	10,253,453	10,253,453	10,910,322	(656,869)
Excess (deficiency) of revenues over (under) expenditures	\$ -	(26,722)	1,533,050	1,559,772	-	(81,492)	3,206,679	3,288,171	-	-	(11,806)	(11,806)	-	(1,274,368)	7,195,638	8,470,006
Fund balances at June 30, 2017			3,578,026				1,895,601				(268,327)				15,253,796	
Fund balances at June 30, 2018		\$ 5,111,076				\$ 5,102,280				\$ (280,133)				\$ 22,449,434		



**CITY OF NEWPORT NEWS, VIRGINIA**  
Debt Service Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual  
Year ended June 30, 2018

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
Revenues:				
Intergovernmental - Local	\$ 9,165,347	9,165,347	9,165,347	—
Miscellaneous	—	—	65,128	65,128
Total revenues	<u>9,165,347</u>	<u>9,165,347</u>	<u>9,230,475</u>	<u>65,128</u>
Expenditures:				
Debt service payments	<u>55,217,930</u>	<u>55,217,930</u>	<u>53,372,954</u>	<u>1,844,976</u>
Total expenditures	<u>55,217,930</u>	<u>55,217,930</u>	<u>53,372,954</u>	<u>1,844,976</u>
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(46,052,583)</u>	<u>(46,052,583)</u>	<u>(44,142,479)</u>	<u>1,910,104</u>
Other financing sources:				
Transfers in			<u>44,323,309</u>	
Net changes in fund balances			180,830	
Fund balances at June 30, 2017			<u>2,096,466</u>	
Fund balances at June 30, 2018			\$ <u><u>2,277,296</u></u>	

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**CITY OF NEWPORT NEWS, VIRGINIA**

Combining Statement of Net Position

Non-Major Component Units

June 30, 2018

<b>Assets</b>	<b>Peninsula Airport Commission</b>	<b>Economic and Industrial Development Authorities</b>	<b>Totals</b>
Current Assets:			
Cash and cash equivalents	\$ 1,592,774	8,453,384	10,046,158
Restricted cash and investments	—	10,773,183	10,773,183
Receivables:			
Accounts	528,104	317,833	845,937
Loans	510,683	86,675	597,358
Other	—	1,432,366	1,432,366
Inventories	55,948	—	55,948
Other current assets	34,392	—	34,392
Total current assets	<u>2,721,901</u>	<u>21,063,441</u>	<u>23,785,342</u>
Restricted cash and cash equivalents	5,968,432	2,253,900	8,222,332
Deferred project costs	161,477	—	161,477
Receivables:			
Loans	—	1,288,180	1,288,180
Notes	—	3,037,590	3,037,590
Accounts, notes & grants	—	6,866,764	6,866,764
Other	—	48,061	48,061
Land held for lease or resale	—	29,829,093	29,829,093
Property, plant and equipment:			
Land	6,604,658	—	6,604,658
Construction in progress	221,424	8,211,322	8,432,746
Infrastructure	—	2,543,500	2,543,500
Buildings	—	201,593,974	201,593,974
Improvements	—	19,595,505	19,595,505
Airfield	90,534,862	—	90,534,862
Terminal	89,549,984	—	89,549,984
Trailer park and rental units	1,548,885	—	1,548,885
Machinery and equipment	6,461,603	84,674	6,546,277
Accumulated depreciation	(99,251,446)	(68,543,525)	(167,794,971)
Total assets	<u>104,521,780</u>	<u>227,872,479</u>	<u>332,394,259</u>
<b>Deferred Outflows of Resources</b>			
Pension deferrals	232,819	—	232,819
OPEB deferrals	115,672	—	115,672
Deferred amount on refunding	—	4,915,179	4,915,179
Total deferred outflows of resources	<u>348,491</u>	<u>4,915,179</u>	<u>5,263,670</u>
<b>Liabilities</b>			
Current Liabilities:			
Accounts payable	293,618	1,287,446	1,581,064
Accrued liabilities	393,028	37,502	430,530
Deposits	29,573	—	29,573
Bonds and notes payable - due within one year	502,109	10,795,530	11,297,639
Total current liabilities	<u>1,218,328</u>	<u>12,120,478</u>	<u>13,338,806</u>
Due to Primary Government	—	10,155,757	10,155,757
Notes payable	—	8,133,333	8,133,333
Bonds payable	7,501,394	70,159,586	77,660,980
Net pension liability	317,803	—	317,803
Net OPEB liability	6,324,966	—	6,324,966
Total liabilities	<u>15,362,491</u>	<u>100,569,154</u>	<u>115,931,645</u>
<b>Deferred Inflows of Resources</b>			
Pension deferrals	142,112	—	142,112
OPEB deferrals	873,524	—	873,524
Total deferred inflows of resources	<u>1,015,636</u>	<u>—</u>	<u>1,015,636</u>
<b>Net Position</b>			
Net investment in capital assets	87,666,467	82,349,770	170,016,237
Restricted for:			
Capital projects	5,968,432	11,306,871	17,275,303
Capital loans	—	1,601,771	1,601,771
Unrestricted	(5,142,755)	36,960,092	31,817,337
Total net position	<u>\$ 88,492,144</u>	<u>132,218,504</u>	<u>220,710,648</u>

**CITY OF NEWPORT NEWS, VIRGINIA**

Combining Statement of Revenues, Expenses and Changes in Net Position  
Non-Major Component Units  
Year ended June 30, 2018

	<b>Peninsula Airport Commission</b>	<b>Economic and Industrial Development Authorities</b>	<b>Totals</b>
Operating revenues:			
Charges for services	\$ 7,673,447	–	7,673,447
Property rentals	–	8,691,694	8,691,694
Parking contributions	–	180,641	180,641
Land sales	–	36,530	36,530
Parking Authority revenues	–	717,280	717,280
Intergovernmental-Primary Government	–	12,106,701	12,106,701
Total operating revenues	<u>7,673,447</u>	<u>21,732,846</u>	<u>29,406,293</u>
Operating expenses:			
Cost of land sold	–	857,938	857,938
Personal services	3,963,208	759,755	4,722,963
Contractual services	2,426,056	5,934,686	8,360,742
Materials and supplies	670,760	661,890	1,332,650
Depreciation and amortization	7,964,440	5,435,152	13,399,592
Rental expenses	–	1,166,953	1,166,953
Miscellaneous	15,657	580,127	595,784
Total operating expenses	<u>15,040,121</u>	<u>15,396,501</u>	<u>30,436,622</u>
Operating income (loss)	<u>(7,366,674)</u>	<u>6,336,345</u>	<u>(1,030,329)</u>
Nonoperating revenues (expenses):			
Federal grants	22,834	–	22,834
Interest revenue	50	497,899	497,949
Bond and admin fee income	–	322,633	322,633
Interest expense	(350,111)	(3,489,744)	(3,839,855)
Letter of credit and trustee fees	–	(51,300)	(51,300)
Gain on disposal	(348,639)	–	(348,639)
Other revenues	–	1,182,627	1,182,627
OPEB expense	(444,572)	–	(444,572)
Nonoperating expenses, net	<u>(1,120,438)</u>	<u>(1,537,885)</u>	<u>(2,658,323)</u>
Capital contributions, net	<u>5,182,855</u>	<u>–</u>	<u>5,182,855</u>
Change in net position	<u>(3,304,257)</u>	<u>4,798,460</u>	<u>1,494,203</u>
Net position at June 30, 2017*	<u>91,796,401</u>	<u>127,420,044</u>	<u>219,216,445</u>
Net position at June 30, 2018	<u>\$ 88,492,144</u>	<u>132,218,504</u>	<u>220,710,648</u>

\*Peninsula Airport Commissions' net position restated due to implementation of GASB 74/75.

**CITY OF NEWPORT NEWS, VIRGINIA**

Statement of Cash Flows  
Non-Major Component Units  
Year ended June 30, 2018

	<b>Peninsula Airport Commission</b>	<b>Economic and Industrial Development Authorities</b>	<b>Totals</b>
Cash flows from operating activities:			
Receipts from customers	\$ 8,113,706	22,073,502	30,187,208
Receipts from land sales and new loans, net of settlement charges	-	(215,358)	(215,358)
Payments to suppliers	(3,490,681)	(9,349,572)	(12,840,253)
Payments to employees	(4,134,046)	(759,755)	(4,893,801)
Net cash provided by operating activities	<u>488,979</u>	<u>11,748,817</u>	<u>12,237,796</u>
Cash flows from noncapital financing activities:			
Noncapital contributions from federal grants	22,834	-	22,834
OPEB expenses paid	(103,860)	-	(103,860)
Net cash (used in) capital and related financing activities	<u>(81,026)</u>	<u>-</u>	<u>(81,026)</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(461,982)	(650,546)	(1,112,528)
Capital contributions, net	6,022,809	-	6,022,809
Repayment and retirement of industrial revenue bonds and notes payable	(465,357)	(9,991,923)	(10,457,280)
Proceeds from Primary Government	-	283,356	283,356
Payment to Primary Government	-	(283,356)	(283,356)
Interest paid	(350,111)	(3,489,744)	(3,839,855)
Proceeds from debt refunding	-	662,243	662,243
Other revenue and expenses	402	1,453,960	1,454,362
Net cash provided by (used in) capital and related financing activities	<u>4,745,761</u>	<u>(12,016,010)</u>	<u>(7,270,249)</u>
Cash flows from investing activities:			
Loans issued	-	(1,647,178)	(1,647,178)
Investment in future projects	(6,904)	-	(6,904)
Interest received	50	497,899	497,949
Decrease in restricted investments, net	(3,863,947)	-	(3,863,947)
Net cash (used in) investing activities	<u>(3,870,801)</u>	<u>(1,149,279)</u>	<u>(5,020,080)</u>
Increase (decrease) in cash and cash equivalents	1,282,913	(1,416,472)	(133,559)
Cash, cash equivalents and restricted cash at beginning of year	<u>309,861</u>	<u>22,896,939</u>	<u>23,206,800</u>
Cash, cash equivalents and restricted cash at end of year	\$ <u>1,592,774</u>	<u>21,480,467</u>	<u>23,073,241</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (7,366,674)	6,336,345	(1,030,329)
Adjustment to reconcile operating income (loss) to cash provided by operating activities:			
Depreciation	7,964,440	5,435,152	13,399,592
Changes in assets and liabilities:			
Changes in land inventory	-	(357,844)	(357,844)
Mortgages receivable	-	(251,888)	(251,888)
Other receivables	11,211	73,112	84,323
Inventories	7,459	-	7,459
Prepaid assets	68,853	-	68,853
Accounts payable and accrued liabilities	(219,647)	518,746	299,099
Unearned revenues	-	(4,806)	(4,806)
Net pension liability and related deferred inflows/outflows of resources	35,149	-	35,149
Net GLI OPEB liability and related deferred inflows/outflows of resources	(11,812)	-	(11,812)
Net cash provided by operating activities	\$ <u>488,979</u>	<u>11,748,817</u>	<u>12,237,796</u>
Supplemental disclosure:			
Noncash investing and financing activities:			
Contributed capital funded by accounts receivable	\$ 510,683	-	510,683

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**CITY OF NEWPORT NEWS, VIRGINIA**  
Trust Funds  
Combining Statement of Fiduciary Net Position  
June 30, 2018

	<u>Line of Duty</u>	<u>Pension</u>	<u>OPEB</u>	<u>Total</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 2,713,193	\$ 4,162,019	\$ 1,248,666	\$ 8,123,878
Cash and cash equivalents with trustee	-	13,742,420	6,762	13,749,182
Investments, at market value:				
Debt securities	-	117,424,810	-	117,424,810
Equity investments	-	664,469,451	32,185,464	696,654,915
Private equities	-	39,794,138	-	39,794,138
Real estate and timber	-	117,719,519	-	117,719,519
Receivable from other components	-	997,456	-	997,456
Receivable from participants	72,497	-	-	72,497
Sales receivable	-	996,843	11,009	1,007,852
Claim Fluctuation Reserve (Anthem)	-	-	1,786,551	1,786,551
Other assets	20,540	-	-	20,540
Total assets	<u>2,806,230</u>	<u>959,306,656</u>	<u>35,238,452</u>	<u>997,351,338</u>
<b>Liabilities</b>				
Accounts payable	217,318	154,437	1,255,401	1,627,156
Payable to City	-	790,987	129,206	920,193
Purchases payable	-	611,330	-	611,330
Total liabilities	<u>217,318</u>	<u>1,556,754</u>	<u>1,384,607</u>	<u>3,158,679</u>
<b>Net Position</b>				
Assets held in trust				
Restricted for pension and OPEB benefits	-	957,749,902	33,853,845	991,603,747
Restricted	2,588,912	-	-	2,588,912
Total net position	<u>\$ 2,588,912</u>	<u>\$ 957,749,902</u>	<u>\$ 33,853,845</u>	<u>\$ 994,192,659</u>

**CITY OF NEWPORT NEWS, VIRGINIA**  
Trust Funds  
Combining Statement of Changes in Fiduciary Net Position  
Year ended June 30, 2018

	<u>Line of Duty</u>	<u>Pension</u>	<u>OPEB</u>	<u>Total</u>
Additions:				
Employer Contributions:				
City General Fund	\$ 300,000	\$ 29,393,174	\$ 7,235,750	\$ 36,928,924
Waterworks Fund	-	3,696,113	1,004,250	4,700,363
School Operating Fund	-	7,611,499	-	7,611,499
Employee Contributions:				
City General Fund	-	4,415,775	-	4,415,775
Waterworks Fund	-	567,922	-	567,922
School Operating Fund	-	640,991	-	640,991
Other Contributions:				
Income from Leave Exchange	-	154,470	-	154,470
Other Income	73,274	-	-	73,274
Total contributions	<u>373,274</u>	<u>46,479,944</u>	<u>8,240,000</u>	<u>55,093,218</u>
Investment income:				
Net appreciation (depreciation) - bonds	-	(2,765,428)	-	(2,765,428)
Net appreciation - stocks	-	83,444,787	2,870,360	86,315,147
Interest	34,657	5,968,914	25,082	6,028,653
Dividends	-	3,615,722	486,844	4,102,566
Real estate operating income	-	5,211,603	-	5,211,603
Commission recapture	-	38,473	-	38,473
Other investment income	-	-	2,082	2,082
Total investment gain	<u>34,657</u>	<u>95,514,071</u>	<u>3,384,368</u>	<u>98,933,096</u>
Less investment expenses:	-	(3,670,005)	(28,522)	(3,698,527)
Net investment gain	<u>34,657</u>	<u>91,844,066</u>	<u>3,355,846</u>	<u>95,234,569</u>
Total additions	<u>407,931</u>	<u>138,324,010</u>	<u>11,595,846</u>	<u>150,327,787</u>
Deductions:				
Benefits paid to participants	322,421	78,907,167	9,229,514	88,459,102
Refunds of member contributions	-	69,768	-	69,768
Administrative expenses	5,095	1,030,662	44,013	1,079,770
Total deductions	<u>327,516</u>	<u>80,007,597</u>	<u>9,273,527</u>	<u>89,608,640</u>
Change in net position	<u>80,415</u>	<u>58,316,413</u>	<u>2,322,319</u>	<u>60,719,147</u>
Net position held in trust for retirement benefits at June 30, 2017	2,508,497	899,433,489	31,531,526	933,473,512
Net position held in trust for retirement benefits at June 30, 2018	<u>\$ 2,588,912</u>	<u>\$ 957,749,902</u>	<u>\$ 33,853,845</u>	<u>\$ 994,192,659</u>

See accompanying notes to basic financial statements



**CITY OF NEWPORT NEWS, VIRGINIA**  
Combining Statement of Changes in Assets and Liabilities  
Agency Funds  
Year Ended June 30, 2018

<b>GPWDC</b>	<b>Balance</b>			<b>Balance</b>
	<b>June 30, 2017</b>	<b>Additions</b>	<b>Deductions</b>	<b>June 30, 2018</b>
Assets:				
Cash and cash equivalents	\$           —	3,097,161	2,948,039	149,122
Accounts receivable	1,132,643	9,987	317,988	824,642
Total assets	<u>\$   1,132,643</u>	<u>3,107,148</u>	<u>3,266,027</u>	<u>973,764</u>
Liabilities:				
Accounts payable	\$     343,887	1,757,067	1,950,628	150,326
Due to other agencies	788,756	34,682	—	823,438
Total liabilities	<u>\$   1,132,643</u>	<u>1,791,749</u>	<u>1,950,628</u>	<u>973,764</u>
 <b>Other Agency Funds</b>				
Assets:				
Cash and cash equivalents	\$   5,987,718	20,977,644	20,494,380	6,470,982
Accounts receivable	3,734,401	23,058,393	22,855,313	3,937,481
Total assets	<u>\$   9,722,119</u>	<u>44,036,037</u>	<u>43,349,693</u>	<u>10,408,463</u>
Liabilities:				
Accounts payable	\$   1,056,852	20,151,732	20,211,434	997,150
Due to other governments	6,165,459	651,980	—	6,817,439
Due to other agencies	2,499,808	188,097	94,031	2,593,874
Total liabilities	<u>\$   9,722,119</u>	<u>20,991,809</u>	<u>20,305,465</u>	<u>10,408,463</u>
 <b>Total - Agency Funds</b>				
Assets:				
Cash and cash equivalents	\$   5,987,718	24,074,805	23,442,419	6,620,104
Accounts receivable	4,867,044	23,068,380	23,173,301	4,762,123
Total assets	<u>\$ 10,854,762</u>	<u>47,143,185</u>	<u>46,615,720</u>	<u>11,382,227</u>
Liabilities:				
Accounts payable	\$   1,400,739	21,908,799	22,162,062	1,147,476
Due to other governments	6,165,459	651,980	—	6,817,439
Due to other agencies	3,288,564	222,779	94,031	3,417,312
Total liabilities	<u>\$ 10,854,762</u>	<u>22,783,558</u>	<u>22,256,093</u>	<u>11,382,227</u>

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## STATISTICAL SECTION

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

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

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

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

	Fiscal Year									
	2018	2017	2016	2015*	2014	2013	2012	2011	2010	2009
Governmental activities:										
Net investment in capital assets	\$ 434,506,011	\$ 403,502,237	\$ 384,685,456	\$ 362,541,053	\$ 344,253,405	\$ 331,677,129	\$ 311,394,219	\$ 290,455,293	\$ 251,724,446	\$ 228,275,222
Restricted	28,002,362	19,682,760	19,333,167	15,441,843	11,105,034	9,396,408	10,732,493	1,182,184	1,034,412	1,517,751
Unrestricted	(263,060,889)	(226,610,632)	(202,853,172)	(201,104,209)	(169,541,405)	(165,087,764)	(141,023,569)	(104,156,300)	(59,047,595)	(46,605,508)
Total governmental activities net position	<u>\$ 199,447,484</u>	<u>\$ 196,574,365</u>	<u>\$ 201,165,451</u>	<u>\$ 176,878,687</u>	<u>\$ 185,817,034</u>	<u>\$ 175,985,773</u>	<u>\$ 181,103,143</u>	<u>\$ 187,481,177</u>	<u>\$ 193,711,263</u>	<u>\$ 183,187,465</u>
Business-type activities:										
Net investment in capital assets	\$ 321,533,379	\$ 312,211,263	\$ 299,063,108	\$ 284,602,082	\$ 243,541,418	\$ 232,313,434	\$ 257,644,908	\$ 251,759,910	\$ 238,441,047	\$ 276,666,222
Restricted	-	-	-	-	28,007,541	30,427,669	-	-	-	-
Unrestricted	11,132,237	9,195,280	3,558,442	1,951,106	27,165,354	21,103,436	19,485,138	23,521,844	31,828,423	41,643,472
Total business-type activities net position	<u>\$ 332,665,616</u>	<u>\$ 321,406,543</u>	<u>\$ 302,621,550</u>	<u>\$ 286,553,188</u>	<u>\$ 298,714,313</u>	<u>\$ 283,844,539</u>	<u>\$ 277,130,046</u>	<u>\$ 275,281,754</u>	<u>\$ 270,269,470</u>	<u>\$ 318,309,694</u>
Primary Government:										
Net investment in capital assets	\$ 756,039,390	\$ 715,713,500	\$ 683,748,564	\$ 647,143,135	\$ 587,794,823	\$ 563,990,563	\$ 569,039,127	\$ 542,215,203	\$ 490,165,493	\$ 504,941,444
Restricted	28,002,362	19,682,760	19,333,167	15,441,843	39,112,575	39,824,077	10,732,493	1,182,184	1,034,412	1,517,751
Unrestricted (deficit)	(251,928,652)	(217,415,352)	(199,294,730)	(199,153,103)	(142,376,051)	(143,984,328)	(121,538,431)	(80,634,456)	(27,219,172)	(4,962,036)
Total Primary Government net position	<u>\$ 532,113,100</u>	<u>\$ 517,980,908</u>	<u>\$ 503,787,001</u>	<u>\$ 463,431,875</u>	<u>\$ 484,531,347</u>	<u>\$ 459,830,312</u>	<u>\$ 458,233,189</u>	<u>\$ 462,762,931</u>	<u>\$ 463,980,733</u>	<u>\$ 501,497,159</u>

Note: \* Implemenation of GASB 68

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

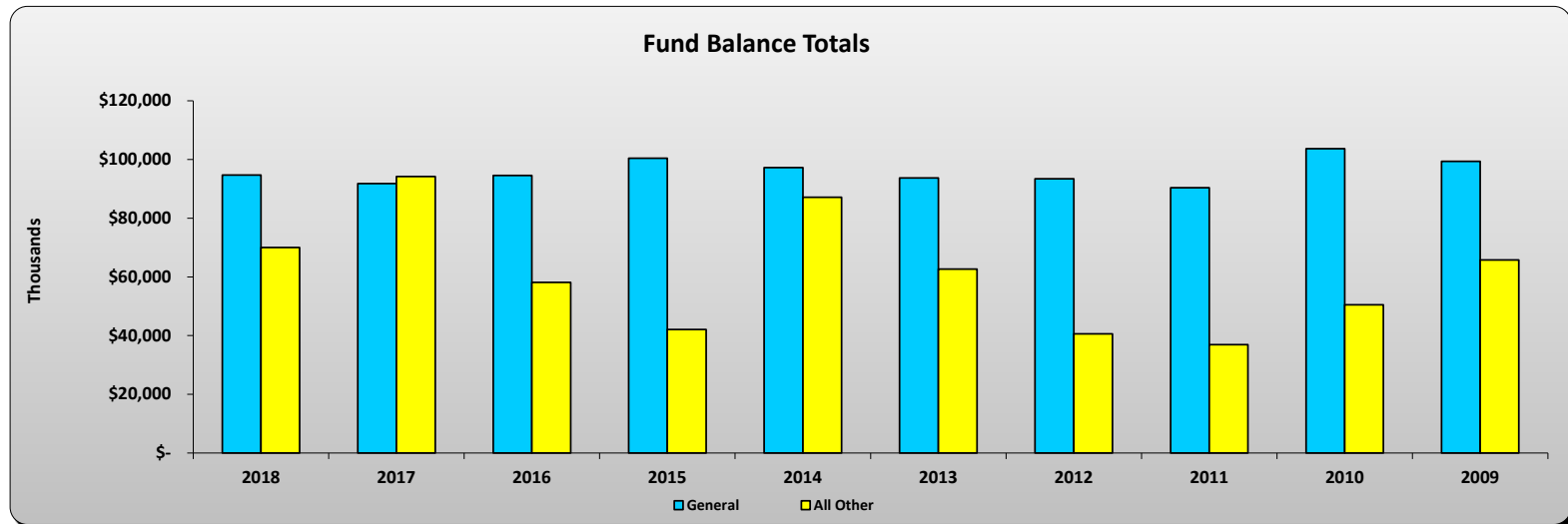
	Fiscal Year									
	2018	2017	2016	2015**	2014*	2013	2012	2011	2010	2009
<b>Program revenues</b>										
<b>Governmental activities:</b>										
Charges for services:										
Public works	\$ 57,160,432	\$ 55,846,420	\$ 54,559,279	\$ 52,316,287	\$ 45,729,958	\$ 40,889,684	\$ 37,095,768	\$ 36,800,694	\$ 37,744,481	\$ 34,526,097
All others	30,035,422	29,954,030	28,819,222	29,469,594	27,341,075	27,279,880	26,264,076	25,854,740	25,805,742	26,406,149
Operating grants and contributions	39,075,745	40,933,661	41,835,794	41,537,105	41,230,144	39,249,011	41,429,302	44,986,270	42,704,554	44,966,813
Capital grants and contributions	30,410,059	16,980,158	9,891,763	9,852,965	8,261,793	6,482,329	4,966,923	3,156,118	4,740,959	1,962,681
<b>Total governmental activities program revenues</b>	<b>156,681,658</b>	<b>143,714,269</b>	<b>135,106,058</b>	<b>133,175,951</b>	<b>122,562,970</b>	<b>113,900,904</b>	<b>109,756,069</b>	<b>110,797,822</b>	<b>110,995,736</b>	<b>107,861,740</b>
<b>Business-type activities:</b>										
Charges for services	99,350,705	91,990,145	89,992,744	88,819,826	85,580,834	76,099,474	73,337,822	74,497,015	72,719,343	73,817,176
Operating/Capital grants and contributions	3,986,319	2,263,856	3,352,599	2,434,032	2,327,993	2,811,556	3,475,356	4,810,036	5,381,669	8,332,219
<b>Total business-type activities program revenues</b>	<b>103,337,024</b>	<b>94,254,001</b>	<b>93,345,343</b>	<b>91,253,858</b>	<b>87,908,827</b>	<b>78,911,030</b>	<b>76,813,178</b>	<b>79,307,051</b>	<b>78,101,012</b>	<b>82,149,395</b>
<b>Total Primary Government program revenues</b>	<b>260,018,682</b>	<b>237,968,270</b>	<b>228,451,401</b>	<b>224,429,809</b>	<b>210,471,797</b>	<b>192,811,934</b>	<b>186,569,247</b>	<b>190,104,873</b>	<b>189,096,748</b>	<b>190,011,135</b>
<b>Expenses</b>										
<b>Governmental activities:</b>										
General government	99,745,558	110,180,530	105,287,988	95,389,412	98,295,537	85,544,610	53,687,583	41,072,050	56,496,116	67,006,531
Judicial administration	7,996,313	8,150,550	7,000,968	6,705,580	6,801,427	6,779,007	7,796,103	7,675,395	7,061,964	7,042,239
Public safety	123,683,767	128,952,047	117,228,275	112,771,624	116,029,097	113,305,100	131,544,707	129,661,963	119,642,698	120,240,436
Public works	76,410,545	85,577,272	77,766,098	70,465,462	72,201,809	70,293,521	76,076,207	77,288,468	71,950,527	70,635,586
Health and welfare	45,434,568	44,848,871	41,363,323	39,218,507	40,894,433	42,283,290	49,131,969	54,114,507	52,805,082	56,468,567
Education	132,474,462	138,929,299	121,829,209	147,634,659	119,743,781	116,592,925	117,566,704	118,376,318	119,956,981	116,528,527
Parks, recreation and culture	33,766,228	35,237,952	32,294,586	31,522,216	32,804,044	34,050,686	34,690,901	34,385,246	32,614,571	34,409,781
Community development	11,298,553	11,180,081	11,490,635	7,371,121	9,764,564	11,194,312	8,743,779	12,678,704	10,369,291	8,832,458
Interest and other fiscal charges	20,083,955	19,860,527	20,545,591	20,497,054	20,607,931	22,927,201	25,545,336	30,258,101	23,923,629	25,487,370
<b>Total governmental activities expenses</b>	<b>550,893,949</b>	<b>582,917,129</b>	<b>534,806,673</b>	<b>531,575,635</b>	<b>517,142,623</b>	<b>502,970,652</b>	<b>504,783,289</b>	<b>505,510,752</b>	<b>494,820,859</b>	<b>506,651,495</b>
<b>Business-type activities:</b>										
Public utilities	74,291,178	67,605,709	69,011,682	64,775,097	63,629,010	62,502,189	65,287,629	64,529,867	64,078,572	62,684,897
<b>Total business-type activities expenses</b>	<b>74,291,178</b>	<b>67,605,709</b>	<b>69,011,682</b>	<b>64,775,097</b>	<b>63,629,010</b>	<b>62,502,189</b>	<b>65,287,629</b>	<b>64,529,867</b>	<b>64,078,572</b>	<b>62,684,897</b>
<b>Total Primary Government expenses</b>	<b>625,185,127</b>	<b>650,522,838</b>	<b>603,818,355</b>	<b>596,350,732</b>	<b>580,771,633</b>	<b>565,472,841</b>	<b>570,070,918</b>	<b>570,040,619</b>	<b>558,899,431</b>	<b>569,336,392</b>
<b>Net Revenue/(Expenses)</b>										
Governmental activities	(394,212,291)	(439,202,860)	(399,700,615)	(398,399,684)	(394,579,653)	(389,069,748)	(395,027,220)	(394,712,930)	(383,825,123)	(398,789,755)
Business-type activities	29,045,846	26,648,292	24,333,661	26,478,761	24,279,817	16,408,841	11,525,549	14,777,184	14,022,440	19,464,498
<b>Total Primary Government</b>	<b>(365,166,445)</b>	<b>(412,554,568)</b>	<b>(375,366,954)</b>	<b>(371,920,923)</b>	<b>(370,299,836)</b>	<b>(372,660,907)</b>	<b>(383,501,671)</b>	<b>(379,935,746)</b>	<b>(369,802,683)</b>	<b>(379,325,257)</b>
<b>General revenues and Other Changes in Net Assets</b>										
<b>Governmental activities:</b>										
Property taxes	265,622,961	261,245,586	256,787,386	250,847,834	246,119,180	229,811,554	229,194,920	230,980,102	236,993,370	233,735,214
Other taxes	105,492,219	103,889,921	102,082,792	100,362,448	96,418,092	96,537,561	91,744,426	89,063,340	88,595,948	89,624,744
Unrestricted grants and contributions	46,117,575	44,482,705	43,217,511	43,235,474	42,216,776	41,481,654	47,106,347	48,209,536	48,630,187	48,993,988
Investment earnings	4,345,961	3,102,177	2,688,086	2,438,265	2,293,272	2,328,310	2,270,634	2,395,569	2,663,324	3,596,647
Miscellaneous	14,270,016	12,391,385	9,711,606	10,542,858	9,358,360	3,902,299	8,441,859	7,834,297	7,466,092	8,201,067
Transfers	9,500,000	9,500,000	9,500,000	9,500,000	9,391,000	9,891,000	9,891,000	10,000,000	10,000,000	10,000,000
<b>Total governmental activities</b>	<b>445,348,732</b>	<b>434,611,774</b>	<b>423,987,381</b>	<b>416,926,879</b>	<b>405,796,680</b>	<b>383,952,378</b>	<b>388,649,186</b>	<b>388,482,844</b>	<b>394,348,921</b>	<b>394,151,660</b>
<b>Business-type activities:</b>										
Investment earnings	1,033,077	454,799	276,491	167,947	153,241	196,652	213,743	235,100	549,737	1,940,465
Extraordinary loss	-	-	-	-	-	-	-	-	(52,612,401)	-
Miscellaneous	1,474,323	1,181,902	958,210	962,131	717,187	-	-	-	-	-
Transfers	(9,500,000)	(9,500,000)	(9,500,000)	(9,500,000)	(9,391,000)	(9,891,000)	(9,891,000)	(10,000,000)	(10,000,000)	(10,000,000)
<b>Total business-type activities</b>	<b>(6,992,600)</b>	<b>(7,863,299)</b>	<b>(8,265,299)</b>	<b>(8,369,922)</b>	<b>(8,520,572)</b>	<b>(9,694,348)</b>	<b>(9,677,257)</b>	<b>(9,764,900)</b>	<b>(62,062,664)</b>	<b>(8,059,535)</b>
<b>Total Primary Government</b>	<b>438,356,132</b>	<b>426,748,475</b>	<b>415,722,082</b>	<b>408,556,957</b>	<b>397,276,108</b>	<b>374,258,030</b>	<b>378,971,929</b>	<b>378,717,944</b>	<b>332,286,257</b>	<b>386,092,125</b>
<b>Changes in Net Position</b>										
Governmental activities	51,136,441	(4,591,086)	24,286,766	18,527,195	11,217,027	(5,117,370)	(6,378,034)	(6,230,086)	10,523,798	(4,638,095)
Business-type activities	22,053,246	18,784,993	16,068,362	18,108,839	15,759,245	6,714,493	1,848,292	5,012,284	(48,040,224)	11,404,963
<b>Total Primary Government</b>	<b>\$ 73,189,687</b>	<b>\$ 14,193,907</b>	<b>\$ 40,355,128</b>	<b>\$ 36,636,034</b>	<b>\$ 26,976,272</b>	<b>\$ 1,597,123</b>	<b>\$ (4,529,742)</b>	<b>\$ (1,217,802)</b>	<b>\$ (37,516,426)</b>	<b>\$ 6,766,868</b>

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

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

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>General fund</b>										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	6,305,988	\$ 5,194,291
Unreserved	-	-	-	-	-	-	-	-	97,366,646	94,164,397
Nonspendable	11,427,627	11,519,118	11,436,689	11,541,956	11,370,286	12,862,783	15,412,699	15,711,917	-	-
Restricted	437,862	322,798	224,814	133,554	90,649	563,863	2,013,986	2,011,665	-	-
Assigned	25,939,296	28,279,733	31,855,250	39,089,271	38,415,687	34,939,767	34,656,608	31,290,680	-	-
Unassigned	56,876,979	51,711,616	51,054,853	49,692,460	47,366,583	45,353,317	41,364,679	41,390,600	-	-
<b>Total General Fund</b>	<b>\$ 94,681,764</b>	<b>\$ 91,833,265</b>	<b>\$ 94,571,606</b>	<b>\$ 100,457,241</b>	<b>\$ 97,243,205</b>	<b>\$ 93,719,730</b>	<b>\$ 93,447,972</b>	<b>\$ 90,404,862</b>	<b>\$ 103,672,634</b>	<b>\$ 99,358,688</b>
<b>All other governmental funds</b>										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	17,170,639	\$ 11,977,232
Unreserved, reported in:										
Special revenue fund	-	-	-	-	-	-	-	-	12,372,862	15,126,615
Debt service fund	-	-	-	-	-	-	-	-	6,511,346	1,258,059
Capital project fund	-	-	-	-	-	-	-	-	13,290,298	10,927,505
Bond fund	-	-	-	-	-	-	-	-	1,144,480	26,477,781
Nonspendable	4,708	-	-	-	-	-	-	-	-	-
Restricted	48,257,170	74,987,521	37,764,123	30,414,816	56,269,407	32,442,547	24,773,693	28,210,329	-	-
Committed	22,255,786	19,575,222	20,806,270	32,354,805	30,841,880	30,148,309	32,951,026	40,772,110	-	-
Assigned	-	15,223	-	-	-	92,000	-	30,000	-	-
Unassigned	(497,643)	(368,067)	(429,701)	(20,674,947)	-	-	(17,129,925)	(32,086,837)	-	-
<b>Total all other governmental funds</b>	<b>\$ 70,020,021</b>	<b>\$ 94,209,899</b>	<b>\$ 58,140,692</b>	<b>\$ 42,094,674</b>	<b>\$ 87,111,287</b>	<b>\$ 62,682,856</b>	<b>\$ 40,594,794</b>	<b>\$ 36,925,602</b>	<b>\$ 50,489,625</b>	<b>\$ 65,767,192</b>

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									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>Revenues</b>										
General property taxes	\$266,110	\$261,130	\$256,442	\$248,297	\$245,531	\$228,025	\$229,353	\$230,860	\$236,184	\$233,632
Other local taxes	105,492	103,890	102,083	100,362	96,418	96,538	91,744	89,063	88,596	89,625
Licenses and permits	4,006	3,724	3,413	3,866	3,433	2,803	3,645	3,372	2,846	3,170
Fines and forfeitures	1,741	1,727	1,517	2,247	2,599	2,984	2,697	2,332	2,213	1,981
Interest and rents	4,280	3,065	2,669	2,425	2,285	2,322	2,264	2,391	2,653	3,579
Charges for services	79,547	78,390	76,208	73,593	64,421	59,179	54,895	54,057	55,523	51,003
Recovered costs	5,908	5,683	5,654	5,946	6,051	6,007	5,768	6,267	5,814	7,948
Intergovernmental	113,955	99,943	92,433	92,649	90,606	86,344	93,076	94,980	92,883	95,048
Miscellaneous	7,296	6,000	4,211	4,348	3,596	3,810	3,034	3,476	3,348	3,821
Total revenues	588,335	563,552	544,630	533,733	514,940	488,012	486,476	486,798	490,060	489,807
<b>Expenditures</b>										
General government	92,769	91,034	94,516	83,730	77,930	76,785	50,109	49,331	51,254	51,921
Judicial administration	7,436	7,225	6,442	6,383	6,129	5,861	6,733	6,592	6,236	6,148
Public safety	119,923	118,558	113,199	111,415	107,104	100,419	116,183	114,075	108,877	108,467
Public works	65,966	71,256	67,487	61,926	59,511	55,527	60,806	62,152	58,764	57,178
Health and welfare	45,825	42,722	41,461	40,244	39,113	38,807	44,654	48,918	49,309	52,154
Education	128,632	130,697	120,300	140,727	117,890	119,362	123,007	118,262	119,581	119,088
Parks recreation culture	30,170	30,047	28,396	27,984	26,637	26,829	27,421	26,923	25,976	27,082
Community development	10,315	9,895	10,974	6,990	8,811	9,778	7,429	10,852	8,959	7,439
Debt service:										
Principal	33,690	40,085	38,000	38,687	38,295	35,123	36,792	33,675	33,444	34,422
Interest	19,683	19,995	20,670	19,499	21,690	22,426	25,424	28,100	24,356	26,054
Capital outlay	64,767	45,078	56,311	47,865	45,878	38,271	37,883	27,791	27,186	21,858
Total expenditures	619,176	606,592	597,756	585,450	548,988	529,188	536,441	526,671	513,942	511,811
Deficiency of revenues										
Under expenditures	(30,841)	(43,040)	(53,126)	(51,718)	(34,048)	(41,176)	(49,965)	(39,873)	(23,882)	(22,004)
<b>Other Financing sources (Uses)</b>										
Transfer In	70,054	71,696	70,403	73,313	69,806	64,854	63,980	87,189	69,587	66,217
Transfer Out	(60,554)	(62,196)	(60,903)	(63,398)	(60,415)	(54,963)	(54,089)	(77,189)	(59,587)	(56,217)
Payment to refund bonds	-	-	(39,614)	-	(64,867)	-	(76,685)	-	-	(136)
Premium on refunded bonds	-	-	6,728	-	7,464	-	7,756	-	-	663
Refund bonds proceeds	-	-	33,190	-	56,115	-	69,335	-	-	481
Bond and note proceeds	-	59,455	48,890	-	45,000	51,905	42,121	3,041	2,918	35,549
Premium on bonds issuance	-	7,416	4,592	-	8,897	5,698	4,259	-	-	-
Contribution to PAC	-	-	-	-	-	(3,958)	-	-	-	-
Total other financing sources, net	9,500	76,371	63,286	9,915	62,000	63,536	56,677	13,041	12,918	46,557
Net change in fund balance	(\$21,341)	\$33,331	\$10,160	(\$41,803)	\$27,952	\$22,360	\$6,712	(\$26,832)	(\$10,964)	\$24,553
Debt service as a percentage of noncapital expenditures *	9.6%	10.7%	10.8%	10.8%	11.9%	11.7%	12.5%	12.4%	11.7%	12.3%

\*Corrected capitalized expenditure amounts that are used to determine debt service as a percentage of noncapital expenditures for fiscal years 2009 thru 2013.



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

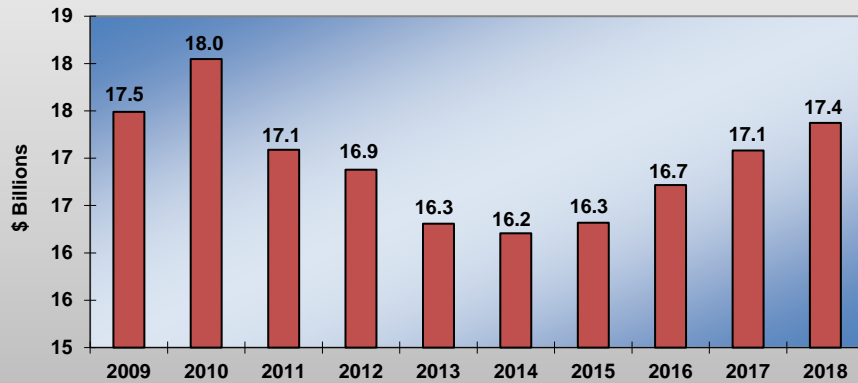
	Fiscal Year										% Change 2009-2018
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	
<b>Property tax</b>	\$265,622,961	\$261,245,586	\$256,787,386	\$250,847,834	\$246,119,180	\$229,811,554	\$229,194,920	\$230,980,102	\$236,183,979	\$233,631,532	12.0%
<b>E911 service</b>	746,818	722,114	701,894	722,381	637,060	596,242	699,378	729,711	737,734	708,725	5.1%
<b>Telecom sales</b>	10,685,005	11,012,699	11,289,782	11,679,829	11,697,528	11,992,112	11,681,054	12,321,643	12,018,133	12,416,819	-16.2%
<b>Sales tax</b>	25,693,286	24,553,589	23,601,270	23,390,029	22,426,753	22,920,353	22,022,527	21,206,724	20,862,730	21,930,591	14.6%
<b>Utility tax</b>	6,428,968	6,043,252	6,262,091	6,312,731	6,279,595	6,262,714	5,891,989	6,511,120	6,321,381	6,137,436	4.5%
<b>Consumption tax</b>	554,807	904,868	669,850	714,814	709,174	700,021	653,430	674,265	776,672	728,656	-31.3%
<b>Business license tax</b>	17,239,148	16,762,176	16,383,239	16,360,314	15,750,751	16,200,207	16,109,141	15,115,176	15,266,938	14,676,421	14.9%
<b>Rental car tax</b>	1,110,324	1,144,248	1,115,643	1,119,583	1,041,657	1,151,221	1,229,911	1,044,775	1,021,610	1,058,659	4.7%
<b>Motor vehicle license tax</b>	4,273,220	4,131,204	4,096,782	4,009,795	4,103,933	3,876,035	3,917,451	3,880,996	3,922,803	3,905,814	8.6%
<b>Bank stock tax</b>	1,018,617	1,012,668	804,718	642,977	675,657	666,072	847,745	957,902	1,015,597	727,678	28.6%
<b>Recordation and wills tax</b>	1,477,452	1,598,418	1,490,565	1,340,624	1,265,779	1,370,840	1,407,159	1,065,889	1,263,938	1,461,537	1.1%
<b>Tobacco tax</b>	4,576,884	4,925,919	4,808,217	4,949,954	5,102,091	5,228,287	4,799,234	4,269,564	4,160,343	4,119,169	10.0%
<b>Hotel and motel room tax</b>	4,345,781	4,278,009	4,297,160	4,013,332	3,178,730	3,008,260	3,191,992	3,064,515	2,969,053	3,130,281	28.0%
<b>Restaurant food tax</b>	26,263,697	25,757,894	25,551,404	24,136,927	22,873,051	22,082,728	18,835,979	17,767,348	17,765,937	18,074,235	31.2%
<b>Amusement tax</b>	984,277	980,953	929,005	872,557	665,301	482,469	457,436	453,712	493,079	548,722	44.3%
<b>Tourism zone tax</b>	93,935	61,910	81,172	96,601	11,032	-	-	-	-	-	100.0%
<b>Total Taxes</b>	<b>\$371,115,180</b>	<b>\$365,135,507</b>	<b>\$358,870,178</b>	<b>\$351,210,282</b>	<b>\$342,537,272</b>	<b>\$326,349,115</b>	<b>\$320,939,346</b>	<b>\$320,043,442</b>	<b>\$324,779,927</b>	<b>\$323,256,275</b>	<b>12.9%</b>

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

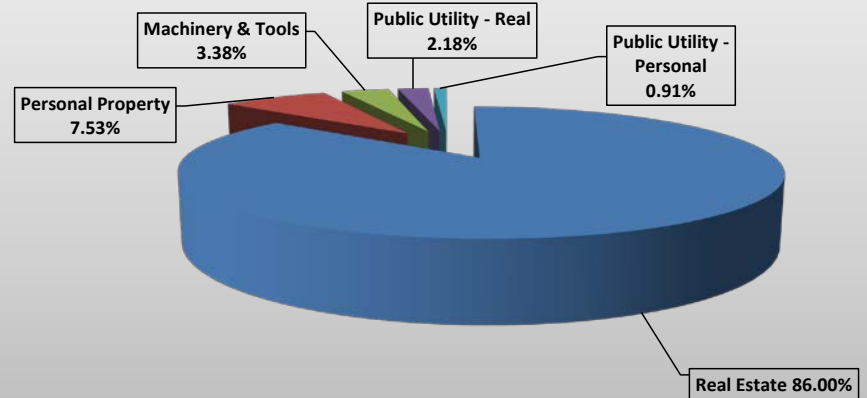
Fiscal Year	Real Estate		Personal Property		Machinery and Tools		Public Utility		Less: Tax- Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value				
							Real Estate	Personal Property								
2009	\$	19,011,429	\$	1,195,193	\$	397,899	\$	250,995	\$	(3,530,295)	\$	17,488,713	\$	1.51	\$	21,019,008
2010		19,762,256		1,154,011		419,441		293,307		(3,753,027)		18,048,533		1.37		21,801,560
2011		18,600,158		1,165,494		438,747		326,889		(3,614,365)		17,090,031		1.40		20,704,396
2012		18,342,224		1,186,515		468,330		339,790		(3,622,298)		16,878,501		1.41		20,500,799
2013		17,744,690		1,221,798		486,090		333,266		(3,641,733)		16,307,403		1.45		19,949,136
2014		17,768,798		1,248,199		507,497		353,179		(3,826,649)		16,207,738		1.41		20,034,387
2015		17,979,237		1,263,012		531,235		352,226		(3,962,290)		16,319,157		1.40		20,281,447
2016		18,396,884		1,322,984		543,091		349,931		(4,053,925)		16,716,737		1.42		20,770,662
2017		18,782,332		1,365,979		554,965		355,023		(4,143,466)		17,082,661		1.53		21,226,127
2018		21,798,305		1,371,461		587,738		379,115		(6,922,307)		17,372,973		1.53		24,295,280

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

**Values of Taxable Properties Last Ten Years**



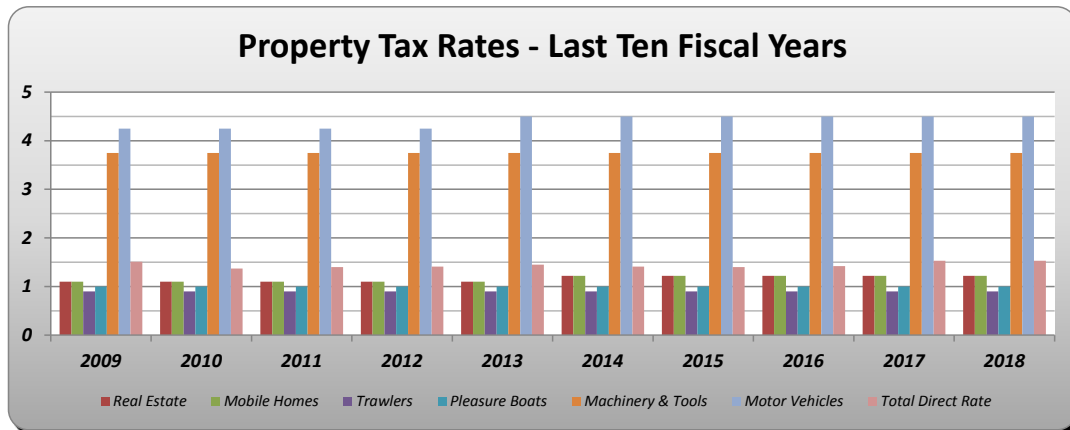
**Types of Taxable Property - 2018**



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

City Direct Rates							
Fiscal Year	Real Estate	Mobile Homes	Trawlers	Pleasure Boats	Machinery & Tools	Motor Vehicles	Total Direct Rate
2009	\$ 1.10	\$ 1.10	\$ 0.90	\$ 1.00	\$ 3.75	\$ 4.25	\$ 1.51
2010	1.10	1.10	0.90	1.00	3.75	4.25	1.37
2011	1.10	1.10	0.90	1.00	3.75	4.25	1.40
2012	1.10	1.10	0.90	1.00	3.75	4.25	1.41
2013	1.10	1.10	0.90	1.00	3.75	4.50	1.45
2014	1.22	1.22	0.90	1.00	3.75	4.50	1.41
2015	1.22	1.22	0.90	1.00	3.75	4.50	1.40
2016	1.22	1.22	0.90	1.00	3.75	4.50	1.42
2017	1.22	1.22	0.90	1.00	3.75	4.50	1.53
2018	1.22	1.22	0.90	1.00	3.75	4.50	1.53

Source: City of Newport News FY18 Adopted Operating Budget



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

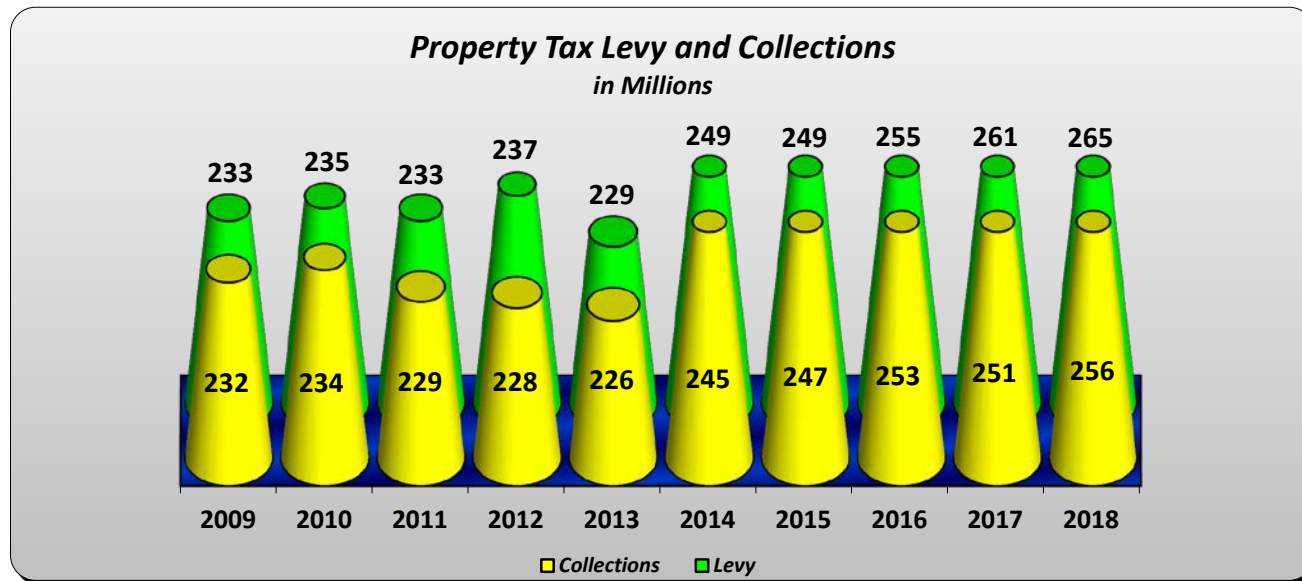
	<b>2018</b>		<b>2009</b>	
	<b>Taxes Due based on Assessed Value</b>	<b>Percentage of Taxes Due</b>	<b>Taxes Due based on Assessed Value</b>	<b>Percentage of Taxes Due</b>
Huntington Ingalls Incorporated	\$23,872	8.93%	\$14,441	8.40%
Canon USA Inc/Canon Virginia Inc	5,185	1.94%	1,734	1.01%
Dominion Energy Inc	3,335	1.25%	1,022	0.59%
The Mariners Museum	2,819	1.05%	1,303	0.76%
Continental Automotive Sys	2,058	0.77%	1,890	1.10%
PR Patrick Henry LLC	1,930	0.72%	1,544	0.90%
Verizon Virginia LLC	1,121	0.42%	645	0.38%
Virginia Natural Gas Inc	1,064	0.40%	414	0.24%
Kinder Morgan Operating LP	999	0.37%	995	0.58%
Pointe Hope LLC	944	0.35%	-	-
IREIT Newport News Tech Center LLC	888	0.33%	-	-
Ferguson Enterprises Corp	786	0.29%	743	0.43%
Dominion Terminal Association	770	0.29%	994	0.58%
RPAI US Management LLC	698	0.26%	-	-
Oyster Point Residential LLC	639	0.24%	497	0.29%
Patrick Henry Hospital (Warwick Forest)	610	0.23%	486	0.28%
Bottling Group LLC	578	0.22%	-	-
Wal-Mart Real Estate Business Trust	568	0.21%	-	-
Venture Newport News LLC	565	0.21%	-	-
BRG Meridian Parkside LLC	496	0.19%	-	-
Inland Western Newport News	-	-	1,128	0.66%
Shorewood Packaging Corp Of Va	-	-	550	0.32%
United Dominion Realty Trust Inc	-	-	542	0.32%
Meridian Parkside Apartments L L C	-	-	470	0.27%
Cox Communications Hampton Roads, Inc	-	-	423	0.25%
Harbours L L C	-	-	390	0.23%
Newport-Oxford Associates Ltd Partnership	-	-	386	0.22%
<b>Total</b>	<b>\$49,925</b>	<b>18.67%</b>	<b>\$30,595</b>	<b>17.80%</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

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

Fiscal Year	Tax Levy		Current Year		Prior Year Amount	Collections in Subsequent Years		Total Collections for Year	
			Amount	% of Levy				Amount	% of Levy
2009	\$	232,507	\$ 224,199	96.4%	-	\$ 7,592	\$	231,791	99.7%
2010		235,225	227,030	96.5%	-	6,476		233,506	99.3%
2011		233,380	222,804	95.5%	-	6,115		228,919	98.1%
2012		236,875	220,914	93.3%	-	7,550		228,464	96.4%
2013		229,071	218,911	95.6%	-	7,267		226,178	98.7%
2014		248,820	236,734	95.1%	-	8,340		245,074	98.5%
2015		248,645	238,149	95.8%	-	9,199		247,348	99.5%
2016		255,057	245,186	96.1%	-	7,917		253,103	99.2%
2017		260,913	250,535	96.0%	-	7,873		258,408	99.0%
2018		265,381	255,657	96.3%	-	Not Available		255,657	96.3%

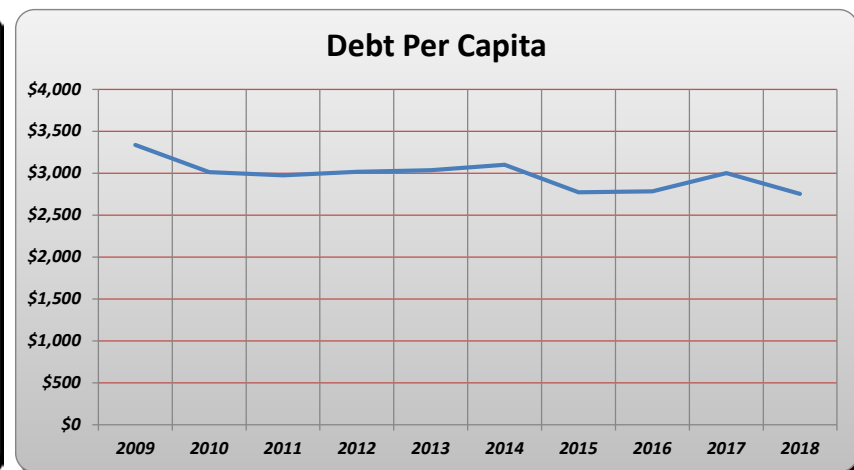
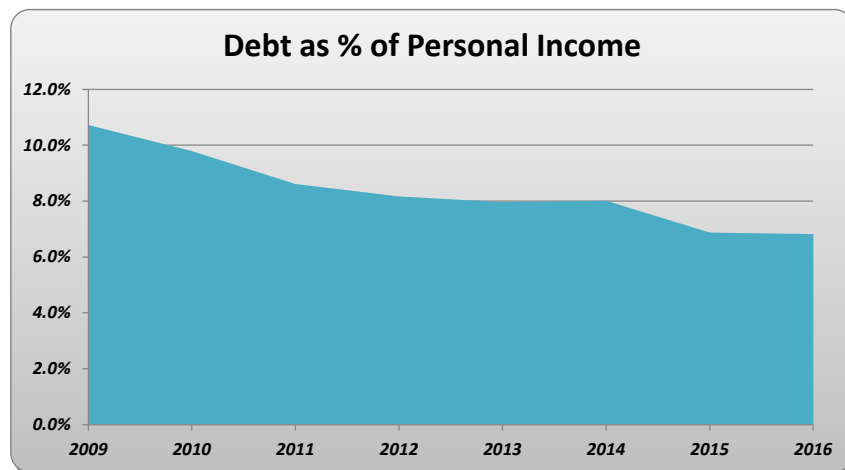


**City of Newport News, Virginia**  
**Ratios of Outstanding Debt by Type**  
**Last Ten Fiscal Years**  
(Dollars in thousands, except per capita)

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>Population</b>	179,388	181,825	182,385	182,965	182,020	180,726	180,719	180,719	193,172	193,212
<b>Personal Income</b>	\$ -	\$ -	\$ 7,448,898	\$ 7,377,992	\$ 7,045,829	\$ 6,891,612	\$ 6,672,878	\$ 6,241,927	\$ 5,946,073	\$ 6,011,449
<b>Governmental Activities:</b>										
General Obligation Bonds	373,646	411,719	389,018	373,923	415,933	388,206	366,401	353,639	383,753	413,482
Guaranty of Peninsula Airport Bonds	-	-	-	-	-	-	4,180	4,490	4,780	5,055
Literary Fund	3,779	4,199	4,619	5,038	5,458	5,878	6,298	6,717	7,237	8,034
Capital Leases	99	211	320	434	571	-	-	-	-	388
Land Lease Payable	-	262	509	742	961	1,167	1,362	-	-	-
Land Purchase Payable	-	-	-	-	142	600	633	-	-	-
<b>Business-type Activities:</b>										
Public Utility Bonds	116,600	129,367	113,508	127,043	141,464	153,005	166,107	172,695	186,330	217,720
<b>Total Primary Government</b>	<u>\$ 494,124</u>	<u>\$ 545,758</u>	<u>\$ 507,974</u>	<u>\$ 507,180</u>	<u>\$ 564,529</u>	<u>\$ 548,856</u>	<u>\$ 544,981</u>	<u>\$ 537,541</u>	<u>\$ 582,100</u>	<u>\$ 644,679</u>
<b>Percentage of Personal Income</b>	-	-	6.8%	6.9%	8.0%	8.0%	8.2%	8.6%	9.8%	10.7%
<b>Net Bonded Debt Per Capita</b>	<u>\$ 2,754</u>	<u>\$ 3,002</u>	<u>\$ 2,785</u>	<u>\$ 2,772</u>	<u>\$ 3,101</u>	<u>\$ 3,037</u>	<u>\$ 3,016</u>	<u>\$ 2,974</u>	<u>\$ 3,013</u>	<u>\$ 3,337</u>

Note: Population figures are derived as follows: 2009 City estimates, 2010 - 2018 Census Bureau estimates.

Note: Personal Income figures were not available for FY2017 & FY2018.

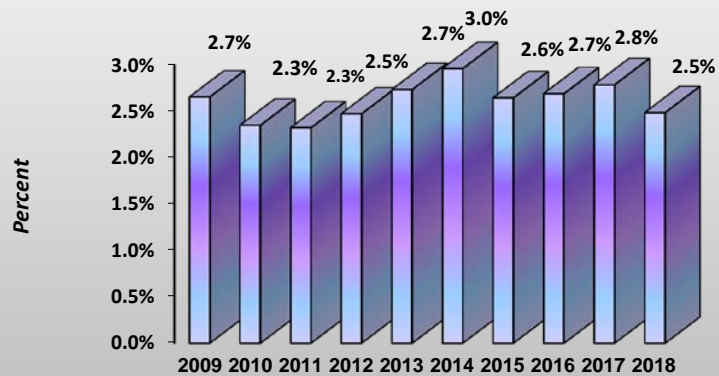


**City of Newport News, Virginia**  
**Ratios of General Bonded Debt Outstanding**  
**Last Ten Fiscal Years**  
**(in thousands of dollars)**

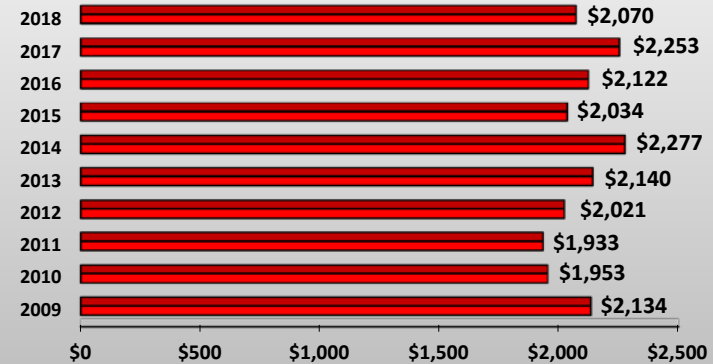
Fiscal Year	Population	Assessed Value of Real Property	General Obligation Bonds	Less Debt Service	Net Bonded Debt	Net Bonded Debt as % of Assessed Valuation	Net Bonded Debt Per Capita
2009	193,212	\$ 15,527,921	\$ 413,482	\$ 1,258	\$ 412,224	2.7%	\$ 2,134
2010	193,172	16,059,444	383,753	6,511	377,242	2.3%	1,953
2011	180,719	15,037,654	353,639	4,341	349,298	2.3%	1,933
2012	180,719	14,768,666	366,401	1,184	365,217	2.5%	2,021
2013	180,726	14,150,367	388,206	1,375	386,831	2.7%	2,140
2014	182,020	13,996,117	415,933	1,560	414,373	3.0%	2,277
2015	182,965	14,072,307	373,923	1,739	372,184	2.6%	2,034
2016	182,385	14,393,093	389,018	1,924	387,094	2.7%	2,122
2017	181,825	14,702,701	411,719	2,096	409,623	2.8%	2,253
2018	179,388	14,939,690	373,646	2,277	371,369	2.5%	2,070

Note: Population figures are derived as follows: 2009 City estimates, 2010 - 2018 Census Bureau estimates.

**Debt as % of Assessed Property Value**



**Debt per Capita**

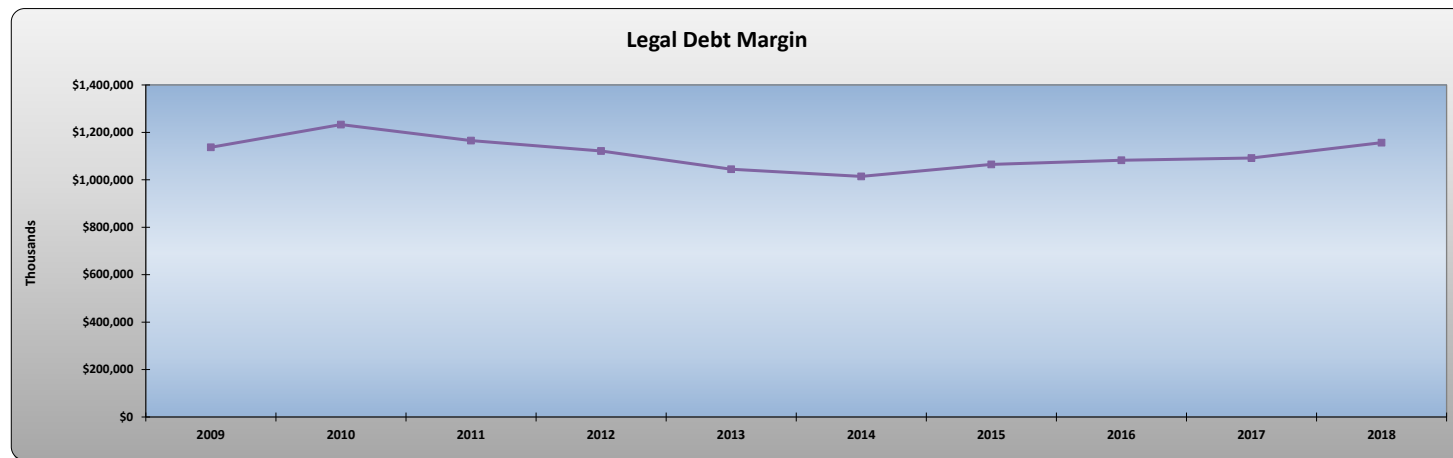


**City of Newport News, Virginia**  
**Legal Debt Margin Information**  
**Last Ten Fiscal Years**

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>Assessed Value of Real Estate:</b>										
General	\$14,939,690,000	\$14,702,700,500	\$14,393,093,200	\$14,072,307,152	\$13,996,117,386	\$14,150,366,660	\$14,768,666,300	\$15,037,654,401	\$16,059,444,443	\$15,527,920,717
Public Service Corporations	<u>379,115,133</u>	<u>355,023,068</u>	<u>349,931,124</u>	<u>352,225,787</u>	<u>352,225,787</u>	<u>333,265,887</u>	<u>339,789,784</u>	<u>326,888,523</u>	<u>293,307,435</u>	<u>250,994,845</u>
<b>Total assessed value</b>	<u>15,318,805,133</u>	<u>15,057,723,568</u>	<u>14,743,024,324</u>	<u>14,424,532,939</u>	<u>14,348,343,173</u>	<u>14,483,632,547</u>	<u>15,108,456,084</u>	<u>15,364,542,924</u>	<u>16,352,751,878</u>	<u>15,778,915,562</u>
<b>Total debt limit (10% of Total Assessed Value)</b>	<u>1,531,880,513</u>	<u>1,505,772,357</u>	<u>1,474,302,432</u>	<u>1,442,453,294</u>	<u>1,434,834,317</u>	<u>1,448,363,255</u>	<u>1,510,845,608</u>	<u>1,536,454,292</u>	<u>1,635,275,188</u>	<u>1,577,891,556</u>
<b>Bonds Outstanding:</b>										
General Obligation, net of unamortized premiums *	354,858,254	390,581,276	365,304,713	346,758,457	384,926,642	364,737,386	341,281,715	322,235,283	354,045,305	385,722,061
General Obligation: Virginia Public School Authority (VPSA)	1,075,384	1,413,176	1,741,482	2,430,106	3,099,111	3,749,472	4,382,117	5,256,983	6,105,937	6,929,403
General Obligation: Virginia Resources Authority (VRA) Loan Fund	15,270,245	17,282,464	19,529,503	22,128,990	24,727,534	27,228,156	29,583,326	31,776,867	30,761,968	29,692,012
General Obligation: Virginia Municipal Pool Loans (VMPL)	-	-	-	162,564	737,565	1,312,565	1,887,565	2,462,565	3,037,565	3,612,565
Guaranty of Peninsula Airport Bonds	-	-	-	-	-	-	4,180,000	4,490,000	4,780,000	5,055,000
Literary Fund	3,779,053	4,198,821	4,618,588	5,038,355	5,458,122	5,877,889	6,297,656	6,717,425	7,598,441	8,034,421
Qualified Zone Academy Bonds (QZAB)	2,442,494	2,442,494	2,442,494	2,442,494	2,442,494	2,442,494	2,442,494	2,442,494	2,442,494	2,442,494
Capital leases **	98,801	210,801	320,418	433,747	570,701	-	-	-	-	360,965
Amount available in Debt Service Fund	(2,277,296)	(2,096,466)	(1,923,785)	(1,738,973)	(1,559,619)	(1,467,172)	(1,183,546)	(4,370,897)	(6,511,346)	(1,258,059)
<b>Total debt outstanding</b>	<u>375,246,935</u>	<u>414,032,566</u>	<u>392,033,413</u>	<u>377,655,740</u>	<u>420,402,550</u>	<u>403,880,790</u>	<u>388,871,327</u>	<u>371,010,720</u>	<u>402,260,364</u>	<u>440,590,862</u>
<b>Legal debt margin</b>	<u>\$1,156,633,578</u>	<u>\$1,091,739,791</u>	<u>\$1,082,269,019</u>	<u>\$1,064,797,554</u>	<u>\$1,014,431,767</u>	<u>\$1,044,482,465</u>	<u>\$1,121,974,281</u>	<u>\$1,165,443,572</u>	<u>\$1,233,014,824</u>	<u>\$1,137,300,694</u>
<b>Total net debt applicable to the limit as a % of debt limit</b>	75.50%	72.50%	73.41%	73.82%	70.70%	72.11%	74.26%	75.85%	75.40%	72.08%

\* Corrected General Obligation amounts for 2009-2016 to include unamortized premiums that were previously omitted from schedule

\*\* Corrected Capital Leases amounts for 2009 - 2010





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

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>Revenues</b>	\$ 99,350,705	\$ 91,990,145	\$ 89,992,744	\$ 88,819,826	\$ 85,580,834	\$ 76,099,474	\$ 73,337,821	\$ 74,497,013	\$ 72,719,343	\$ 73,817,176
<b>Less the Sum of:</b>										
Operating Expenses	54,389,582	47,780,964	48,435,441	43,199,329	43,866,179	44,089,732	43,538,269	42,366,225	42,696,818	41,863,251
120% of Max Debt Service on Revenue Bonds	4,145,564	2,788,351	2,213,227	3,129,200	3,129,200	3,129,200	3,129,200	3,129,200	3,129,200	27,555,365
100% of Max Debt Service on general obligation water bonds	12,754,595	15,703,580	15,886,779	15,935,112	16,006,224	16,356,343	16,710,108	19,355,120	16,356,343	16,356,343
	71,289,741	66,272,895	66,535,447	62,263,641	63,001,603	63,575,275	63,377,577	64,850,545	62,182,361	85,774,959
<b>Equals (1)</b>	<u>\$ 28,060,964</u>	<u>\$ 25,717,250</u>	<u>\$ 23,457,297</u>	<u>\$ 26,556,185</u>	<u>\$ 22,579,231</u>	<u>\$ 12,524,199</u>	<u>\$ 9,960,244</u>	<u>\$ 9,646,468</u>	<u>\$ 10,536,982</u>	<u>\$(11,957,783)</u>

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

Note: Operating expenses exclude depreciation.

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

Fiscal Year	Population	Personal Income (In thousands)	Per Capita Income	Median Age	School Enrollment	Unemployment Rate
2009	193,212	\$ 6,011,449	\$ 31,120	33	29,023	6.5%
2010	193,172	5,946,073	32,921	32	28,610	8.0%
2011	180,719	6,241,927	34,752	32	28,183	7.6%
2012	180,719	6,672,878	36,923	32	27,701	7.4%
2013	180,726	6,891,612	37,862	32	29,222	6.9%
2014	182,020	7,045,829	38,509	32	29,268	6.4%
2015	182,965	7,377,992	40,453	33	29,118	6.0%
2016	182,385	7,448,898	40,967	33	28,865	5.0%
2017	181,825	-	-	33	28,240	4.9%
2018	179,388	-	-	33	28,401	4.2%

**Sources:**

Note: Population figures are derived as follows: 2009 - 2015 Bureau of Economic Analysis; 2016-2018 - U.S. Census Bureau estimates.

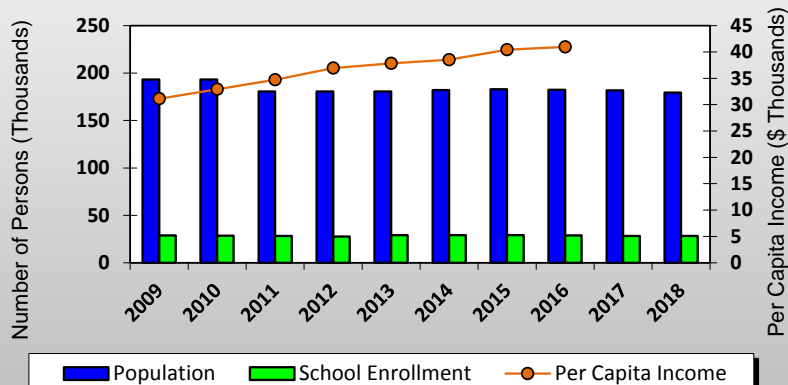
Personal Income: 2009-2016 Bureau of Economic Analysis; 2017 - 2018 were not available at year-end.

Per Capita Income: 2009 - 2016 Bureau of Economic Analysis; 2017 - 2018 were not available at year-end.

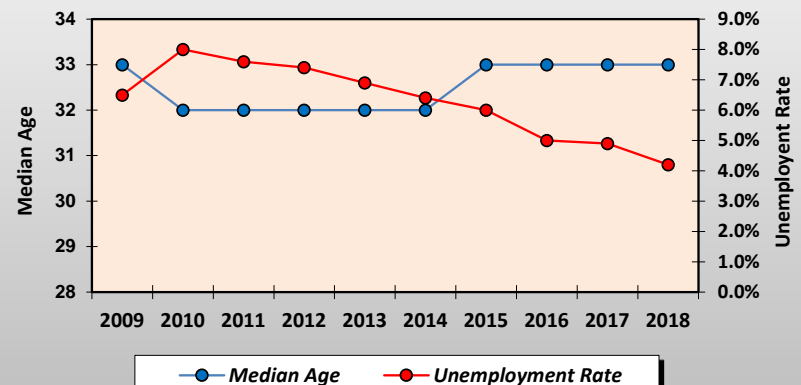
Unemployment Rate: 2009 Virginia Employment Commission; 2010-2014 Virginia Workforce Connection; 2015-2018 Virginia Labor Market Information

Median Age: U.S. Census Bureau

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



**Median Age - Unemployment**



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

	2018		2009	
	Employees	% of Total City Employment	Employees	% of Total City Employment
Huntington Ingalls Industries, Inc.	10,000 - 25,000	19.43%	10,000 - 20,000	16.45%
Riverside Regional Medical Center	1,000 - 5,000	3.33%	1,000 - 5,000	3.29%
Newport News Public Schools	1,000 - 5,000	3.33%	1,000 - 5,000	3.29%
City of Newport News	1,000 - 5,000	3.33%	1,000 - 5,000	3.29%
U.S. Department of Defense	1,000 - 5,000	3.33%	1,000 - 5,000	3.29%
Ferguson Enterprises Inc.	1,000 - 5,000	3.33%	1,000 - 5,000	3.29%
Christopher Newport University	1,000 - 5,000	3.33%	1,000 - 5,000	3.29%
Canon	1,000 - 5,000	3.33%	1,000 - 5,000	3.29%
U.S. Department of Army and Air Force	1,000 - 5,000	3.33%	1,000 - 5,000	3.29%
Walmart	500 - 1,000	0.83%	-	-
Mary Immaculate Hospital	-	-	500 - 1,000	0.82%
<b>Total</b>	<b>18,500 - 66,000</b>	<b>46.91%</b>	<b>18,500 - 61,000</b>	<b>43.59%</b>

Source: VIRGINIA EMPLOYMENT COMMISSION

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

Fund, Function, Activity and Elements	Full-Time City Government Employees as of June 30									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<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	4	4	4	4	4	5	5	5	5	5
<b>General and Financial Administration:</b>										
City Manager	10	10	10	18	18	18	18	18	21	21
Human Resources	20	20	16	15	15	18	19	19	18	18
City Attorney	18	18	18	18	18	18	18	18	18	18
Internal Auditor	6	6	6	6	6	6	6	6	6	6
Commissioner of the Revenue	42	42	42	40	40	40	40	40	42	42
Real Estate Assessor	20	20	21	21	22	22	22	22	23	23
City Treasurer	34	34	34	33	33	33	33	33	34	34
Finance	41	22	18	18	18	18	18	18	18	18
Budget and Evaluation	7	7	7	7	7	7	7	7	7	7
Office of Self-Insurance (General Liability Insurance Fund)	6	6	6	6	6	6	6	6	9	9
Purchasing***	-	18	19	21	20	23	23	23	23	23
Information Technology	64	58	57	57	56	57	57	58	63	63
Customer Service - 311 Call Center*	-	-	-	10	10	6	-	-	-	-
Communications*	25	25	24	-	-	-	-	-	-	-
<b>Board of Elections:</b>										
Registrar	5	5	5	5	5	5	5	5	5	5
<b>Total General Government Administration</b>	<b>309</b>	<b>302</b>	<b>294</b>	<b>286</b>	<b>285</b>	<b>289</b>	<b>284</b>	<b>285</b>	<b>299</b>	<b>299</b>
<b>Judicial administration:</b>										
<b>Courts:</b>										
Circuit Courts	7	7	7	6	6	6	6	7	7	7
Office of the Magistrate	-	6	6	6	6	6	6	6	6	6
Clerk of the Circuit Court	24	24	24	24	23	23	24	24	27	27
Court Services	2	2	2	2	2	2	2	2	2	2
Commonwealth's Attorney	54	52	49	49	49	49	49	49	50	50
<b>Total Judicial Administration</b>	<b>87</b>	<b>91</b>	<b>88</b>	<b>87</b>	<b>86</b>	<b>86</b>	<b>87</b>	<b>88</b>	<b>92</b>	<b>92</b>
<b>Public Safety:</b>										
<b>Law Enforcement and Traffic Control:</b>										
Police Department	601	594	588	586	586	586	586	587	593	593
Emergency Communications	-	-	-	-	-	-	-	-	-	-
<b>Fire and Rescue Services:</b>										
Fire Department	382	381	380	379	380	380	382	382	371	371
<b>Correction and Detention:</b>										
Sheriff	219	219	219	215	215	217	217	217	222	222
Adult Corrections**	-	-	-	60	60	60	61	62	69	69
Juvenile Detention	141	138	130	126	126	125	130	128	143	143
<b>Inspections:</b>										
Codes Compliance	39	39	38	38	38	38	39	39	40	40
<b>Total Public Safety</b>	<b>1,382</b>	<b>1,371</b>	<b>1,355</b>	<b>1,404</b>	<b>1,405</b>	<b>1,406</b>	<b>1,415</b>	<b>1,415</b>	<b>1,438</b>	<b>1,438</b>
<b>Public Works:</b>										
Engineering	68	70	68	69	78	78	84	85	93	93
Public Works Administration	186	185	185	156	152	157	158	158	170	170
<b>Total Public Works</b>	<b>254</b>	<b>255</b>	<b>253</b>	<b>225</b>	<b>230</b>	<b>235</b>	<b>242</b>	<b>243</b>	<b>263</b>	<b>263</b>
<b>Welfare:</b>										
Human Services	387	382	377	377	387	391	391	391	397	397
Office of Youth Development	-	-	-	-	-	-	-	-	-	-
<b>Total Welfare</b>	<b>387</b>	<b>382</b>	<b>377</b>	<b>377</b>	<b>387</b>	<b>391</b>	<b>391</b>	<b>391</b>	<b>397</b>	<b>397</b>
<b>Parks and Library:</b>										
Parks and Recreation	108	108	108	106	108	107	105	106	117	117
Parks and Recreation Revolving Fund	80	80	80	83	93	94	95	95	98	98
Library	52	51	52	52	53	56	56	57	61	61
<b>Total Parks, Recreation and Library</b>	<b>240</b>	<b>239</b>	<b>240</b>	<b>241</b>	<b>254</b>	<b>257</b>	<b>256</b>	<b>258</b>	<b>276</b>	<b>276</b>
<b>Community Development:</b>										
<b>Planning and Community Development:</b>										
Development	20	20	19	17	17	17	17	18	20	20
Planning	14	13	13	12	12	13	13	13	14	14
<b>Total Community Development</b>	<b>34</b>	<b>33</b>	<b>32</b>	<b>29</b>	<b>29</b>	<b>30</b>	<b>30</b>	<b>31</b>	<b>34</b>	<b>34</b>
<b>Total General Fund</b>	<b>2,693</b>	<b>2,673</b>	<b>2,639</b>	<b>2,649</b>	<b>2,676</b>	<b>2,694</b>	<b>2,705</b>	<b>2,711</b>	<b>2,799</b>	<b>2,799</b>
<b>OTHER OPERATING FUNDS</b>										
Public Utilities Fund	352	352	352	353	353	365	365	365	370	370
Vehicle & Equipment Services Fund	40	40	41	39	39	39	40	40	40	40
Solid Waste Revolving Fund	71	71	66	64	64	61	61	66	66	66
Wastewater Fund	109	108	104	100	99	97	95	87	87	87
Stormwater Management Fund	105	105	98	90	88	84	81	79	79	79
Pension Fund	-	-	6	6	6	6	6	6	7	7
Economic and Industrial Authority	5	5	5	5	5	5	5	5	5	5
Parking Authority Fund	2	2	2	2	2	2	2	2	2	2
Law Library	1	1	1	1	1	1	1	1	2	2
Schools	3,901	3,934	3,904	3,921	3,937	4,026	4,076	4,138	4,296	4,293
Peninsula Regional Animal Shelter	11	11	11	11	11	-	-	-	-	-
<b>Total Other Operating Funds</b>	<b>4,597</b>	<b>4,629</b>	<b>4,590</b>	<b>4,592</b>	<b>4,605</b>	<b>4,686</b>	<b>4,732</b>	<b>4,789</b>	<b>4,954</b>	<b>4,951</b>
<b>TOTAL CITY EMPLOYEES</b>	<b>7,290</b>	<b>7,302</b>	<b>7,229</b>	<b>7,241</b>	<b>7,281</b>	<b>7,380</b>	<b>7,437</b>	<b>7,500</b>	<b>7,753</b>	<b>7,750</b>

Source: City Adopted Budget.

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

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

\*\*\*In FY 2018, the Purchasing Department was transferred into the Finance Department.

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

Function/Program	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
General Government										
<b>Retail Sales (Millions)</b>	2,146	2,329	2,278	2,212	2,242	2,202	2,109	1,893	1,923	1,873
Police										
<b>Calls for Service</b>	181,522	148,561	75,150	154,111	170,317	169,877	255,267	250,126	251,346	179,975
Number of Offenses	19,737	20,236	9,855	19,291	20,601	20,888	22,516	21,386	23,905	30,787
Adult Arrests	12,024	12,716	4,997	13,156	15,182	9,804	14,759	15,065	15,093	15,496
Traffic Summonses	23,171	17,828	17,011	22,700	29,974	28,383	32,961	15,682	26,611	22,944
Traffic Accidents	2,909	3,020	1,490	2,924	2,756	2,641	2,517	2,480	2,510	3,068
Fire										
<b>Fire Calls</b>	-	-	-	-	-	-	-	-	-	12,718
EMS Calls	-	-	-	-	-	-	-	-	-	21,492
Structure Fires	-	-	-	-	-	-	-	-	-	517
<b>Emergency Medical Service/Rescue*</b>	21,508	19,520	22,938	22,728	27,574	22,017	24,674	22,190	21,845	-
Public Assistance*	2,579	1,120	1,045	1,939	1,660	1,651	1,461	1,569	1,483	-
Good Intent Calls*	2,720	2,225	1,817	1,817	150	1,685	1,305	1,309	1,457	-
False/Alarm / Alarm Malfunction*	1,577	1,488	1,381	1,436	778	1,375	1,348	1,418	1,428	-
Hazardous Conditions*	577	2,093	109	564	572	637	930	720	879	-
All Fires*	577	622	543	578	610	639	704	870	776	-
Explosions*	15	5	7	7	7	14	18	2	18	-
Weather Event/Other*	4	23	9	10	4	57	51	27	16	-
Sheriff										
<b>City Jail Capacity</b>	300	300	300	300	300	300	300	300	248	248
Codes Compliance										
<b>Building Permits Issued</b>	1,475	1,363	1,372	1,545	1,589	1,985	2,155	1,759	1,821	2,079
Residential Construction	135	195	222	219	230	222	340	262	198	91
Commercial Construction	18	72	55	76	69	49	102	81	37	53
Waterworks										
<b>Gallons Delivered Per Day (Millions)</b>	33	33	34	35	35	35	36	40	40	42
Meters Connected**	137,754	136,914	134,191	133,722	133,380	132,743	132,439	134,403	131,924	128,614
Public Works										
<b>Potholes Repaired</b>	20,037	18,494	23,208	19,148	18,148	15,305	15,125	19,216	17,675	7,742
Streets Resurfaced (Miles)	3	11	10	12	8	7	8	9	9	10
Recyclables collected (Tons)	6,101	6,151	6,300	6,901	7,325	6,957	6,698	7,641	7,463	9,924
Parks and Recreation										
<b>Park Vistors (Millions) (All Parks)</b>	4	4	4	4	4	4	4	4	4	4
Celebration of lights vistors	119,638	111,097	110,679	104,617	103,491	109,700	112,854	93,428	91,665	103,341
Tourism visitor inquiries	78,605	241,311	152,252	78,795	77,224	79,088	87,732	80,206	79,610	108,412
Tourism web site visits****	235,698	380,233	241,722	200,132	198,520	215,849	147,875	126,754	138,048	117,588
Vistor guides distributed	175,000	200,000	200,000	200,000	200,000	165,000	150,000	150,000	150,000	150,000
Library										
<b>Circulation Transactions</b>	692,774	777,457	788,356	887,044	951,241	1,009,939	1,062,759	941,934	847,367	767,131
Reference	77,570	85,349	106,329	152,153	321,102	174,356	178,117	140,623	140,071	129,196
Computer use	249,743	241,301	236,361	302,465	256,929	244,971	240,257	235,080	231,601	206,687
Program attendance	31,800	20,848	22,442	14,985	16,272	26,206	14,526	24,552	14,490	16,594
Visitor count***	678,439	737,748	890,717	890,717	829,290	889,407	759,840	814,129	997,912	973,869
Meeting room use	1,397	1,228	1,294	1,872	916	830	1,126	1,193	1,218	1,223
Schools										
<b>Average Daily Students</b>	28,401	28,240	28,865	29,118	29,268	29,222	27,701	28,183	28,610	29,023

Sources: Various city departments.

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

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

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

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

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

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>Function/Program</b>										
<b>Police</b>										
Patrol Units	251	247	242	238	238	245	237	253	240	224
Boats	3	3	3	3	2	3	3	2	2	1
<b>Fire</b>										
Stations	11	11	11	11	11	11	11	11	11	10
Fire Trucks	18	25	25	25	25	26	26	23	23	25
Ambulances	12	18	18	17	17	17	17	17	17	17
Boats	1	2	2	2	2	2	2	2	2	2
<b>Engineering</b>										
Streetlights	20,756	20,424	20,586	21,387	20,308	20,125	20,033	19,780	19,645	19,616
Traffic Lights	263	263	261	261	257	253	253	255	253	253
<b>Parks and Recreation</b>										
Parks	37	37	37	37	36	36	35	35	35	35
Acreage	8,697	8,697	8,697	8,697	8,697	9,120	9,119	9,119	9,119	9,119
Athletic Fields	154	154	154	154	154	97	97	97	97	97
Mini-parks	3	3	3	3	3	3	3	3	3	3
Beach/Waterfront Areas	8	8	8	8	8	8	8	8	8	8
Boat Ramps	7	7	7	7	7	7	7	7	7	9
Golf Courses	2	2	2	2	2	2	2	2	2	2
Swimming Pools	3	3	3	3	3	3	3	3	3	3
Tennis Courts (free)	57	57	57	57	57	57	57	57	57	65
Tennis Courts (pay)	24	24	24	24	24	24	24	24	24	20
Squares	3	3	3	3	3	3	3	3	3	3
<b>Library</b>										
Books	209,033	233,517	322,888	260,618	268,173	287,595	273,640	325,370	324,531	340,733
Paperbacks	10,406	12,628	15,609	17,520	17,895	17,497	17,374	19,914	21,276	21,173
Videos/DVD's	37,772	45,649	41,839	39,898	36,793	32,714	26,859	26,270	21,259	19,910
Cassettes/Compact Disks	17,475	21,543	20,826	21,455	20,910	20,362	20,960	22,911	20,605	16,359
Microfilm	1	0	1	1	1	-	-	-	-	-
<b>Waterworks</b>										
Miles of Pipe	1,762	1,758	1,754	1,754	1,746	1,748	1,746	1,798	1,780	1,786
Fire Hydrants	11,286	11,122	11,069	11,113	10,987	10,939	10,874	10,821	10,700	10,650
<b>Public Works</b>										
Refuse Carts	80,674	82,251	76,654	76,654	77,619	78,354	79,056	82,023	76,607	76,729
Streets (miles)	506	505	510	505	505	505	666	505	505	504
Lanes (miles)**	1,185	1,184	1,203	1,193	1,193	1,191	1,191	1,191	1,184	1,183
Sanitary sewers (miles)*	585	583	584	584	699	709	709	554	572	572
Storm sewers (miles)*	677	651	599	607	717	542	542	542	487	487
Pump Stations	185	183	183	183	182	180	185	177	179	179
<b>Schools</b>										
Early Childhood centers	4	4	4	4	4	4	4	4	4	4
Elementary schools	24	24	24	24	24	24	24	25	26	26
Middle schools	7	7	7	7	7	7	7	7	7	7
High schools	5	5	5	5	5	5	5	5	5	5
Middle-High combo schools	1	1	1	1	1	1	1	1	1	1

**Sources:** Various city departments.

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

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newport News, Virginia (the "City"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 21, 2018. Our report includes a reference to other auditors who audited the financial statements of the Peninsula Airport Commission, a component unit of the City. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. Our report recognizes that the City implemented one new accounting standard effective July 1, 2017.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

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

Richmond, Virginia  
November 21, 2018



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

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

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

We have audited the City of Newport News, Virginia's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2018. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

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

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

### ***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

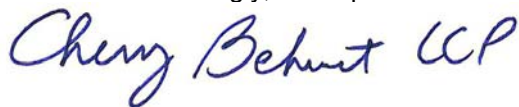
### **Report on Internal Control over Compliance**

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

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

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

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

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

Richmond, Virginia  
November 21, 2018

**CITY OF NEWPORT NEWS, VIRGINIA**  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2018

<u>Federal Granting Agency/Recipient State Agency</u>	<u>CFDA Number</u>		<u>Federal Expenditures</u>	<u>Passed Through to Sub-Recipients</u>
<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		\$ 4,202,989	
Department of Agriculture:				
Pilot projects - SNAP	10.596		137,803	
School Lunch Program-Commodities	10.555	\$ 9,942		
Department of Education:				
School Breakfast Program (777-360-01; 777-360-03)	10.553	152,560		
Total Child Nutrition Cluster			162,502	
<b>DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</b>				
Direct Payments:				
Community Development Block Grant Program				
Community Development Block Grants (B11-MC-51-0015, B12-MC-51-0015)				
Passed through to - Newport News Redevelopment and Housing Authority	14.218		1,115,426	1,115,426
Pass-through Payments:				
Department of Housing & Community Development:				
Home Investment in Affordable Housing (M-07-MC-51-0202, M13-MC-51-0202)	14.239		682,939	682,939
Passed through to - Newport News Redevelopment and Housing Authority	14.892		219,765	
Choice Neighborhoods Planning (FR-5900-N-14)				
<b>DEPARTMENT OF THE INTERIOR FISH AND WILDLIFE SERVICE</b>				
Pass-through Payments:				
VA Department of Health:				
Clean Vessel Act (VA V-8-D-1)	15.616		649	
<b>DEPARTMENT OF JUSTICE</b>				
Direct Payments -				
Office of Justice Programs:				
Edward Byrne Memorial Justice Assistance Grants (2010-DJ-BX-0899)	16.738		182,742	
Law Enforcement and Missing Persons	16.015		39,779	
Pass-through Payments:				
Department of Criminal Justice Service:				
Victims of Crime Act (VOCA) (140-390-01)	16.575		311,759	
Juvenile Accountability Incentive Block Grants-One Time Special Funding	16.540		16,181	
Equitable Sharing Program	16.922		149,780	
<b>DEPARTMENT OF TRANSPORTATION</b>				
Pass-through Payments:				
Va Department of Transportation:				
Highway Planning & Construction	20.205	17,388,203		
Highway Planning & Construction--Safe Routes	20.205	82,844		
Total Highway Planning & Construction			17,471,047	
Va Department of Motor Vehicles:				
DMV Select Enforcement	20.607		62,888	
Totals, page 1			\$ 24,756,249	1,798,365

**CITY OF NEWPORT NEWS, VIRGINIA**  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2018

<u>Federal Granting Agency/Recipient State Agency</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>	<u>Passed Through to Sub-Recipients</u>
DEPARTMENT OF COMMERCE			
Direct Payments:			
Arrangements for Interdisciplinary Research Infrastructure GCTC StormSense Cities Project (70NANB16H277)	11.619	\$ 38,859	
DEPARTMENT OF DEFENSE			
Direct Payments:			
Joint Land Use Study - Joint Base Langley Eustis JLUS	12.610	197,497	
DEPARTMENT OF HEALTH & HUMAN SERVICES			
Pass-through Payments:			
Department of Social Services:			
Affordable Care Act MIECH Visiting Program	93.505	100,564	
Maternal, Infant and Early Childhood Home (MIECH) Visiting Program	93.870	273,719	
Promoting Safe and Stable Families (765-469-01)	93.556	101,270	
Temporary Assistance for Needy Families (765-452-01; 765-460-03)	93.558	2,874,863	
Refugee and Entrant Assistance (765-460-03; 765-491-02)	93.566	22,313	
Low-Income Home Energy Assistance (765-460-03)	93.568	311,177	
Child Care and Development Block Grant Act of 1990 (765-452-15)	93.575	\$ (1,901)	
Child Care and Development Mandatory Matching Funds (765-460-03)	93.596	<u>368,742</u>	
Total Child Care Cluster		366,841	
Chafee Education and Training Vouchers Program (765-469-01)	93.599	8,418	
Adoption Incentive	93.603	7,756	
Child Welfare Services State Grants (765-460-06)	93.645	6,951	
Foster Care - Title IV-E (765-460-03; 765-460-06; 765-469-01)	93.658	2,266,574	
Adoption Assistance (765-460-03; 765-469-03)	93.659	1,750,875	
Social Services Block Grant (765-460-03; 765-468-02; 765-469-01)	93.667	2,005,988	
Independent Living (765-460-03; 765-469-01)	93.674	25,168	
State Children's Insurance Program (765-460-03)	93.767	159,757	
Medical Assistance Program - Title XIX (765-460-03)	93.778	4,233,505	
SOCIAL SECURITY ADMINISTRATION			
Direct Payments:			
Social Security Incentive Program	96.006	400	
DEPARTMENT OF HOMELAND SECURITY			
Direct Payments:			
FEMA Dept. of Homeland Security (EMW-2012-PU-APP-00134)	97.056	29,249	
FEMA Dept. of Homeland Security (EMW-2009-FO-017/2012-FO-014)	97.044	397,053	
Pass-through Payments:			
Department of Emergency Management:			
Disaster Grants-Public Assistance (DR-1862, DR-1661, DR-4024)	97.036	114,841	
Emergency Management Performance Grants (127-775-01)	97.042	108,190	
Homeland Security Grant	97.067	<u>233,950</u>	
Totals, page 2		<u>15,635,778</u>	<u>-</u>
Grand Total		<u>\$ 40,392,027</u>	<u>1,798,365</u>

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

#### (1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Newport News, Virginia (the City), except the Peninsula Airport Commission and the Newport News Public Schools, which have separate reports in accordance with the Uniform Guidance. The information in this Schedule is presented on the modified accrual basis of accounting in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The City did not elect to use the 10% indirect cost rate.

The City operates on a contractual basis with its grant partners except for its relationship with NNRHA. NNRHA is a sub-recipient of the City for the Community Development Block Grant Program (CFDA number 14.218) and the Home Investment in Affordable Housing Program (CFDA number 14.239). The amounts passed through to NNRHA for the Community Development Block Grant Program and the Home Investment in Affordable Housing Program were \$1,115,426 and \$682,939 respectively.

#### (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	\$ 18,142,638
Special Revenue Funds Capital Projects	17,388,203
Special Revenue Funds	<u>4,861,186</u>
Total expenditures	<u><u>\$ 40,392,027</u></u>

#### (3) The City did not elect to use the 10% de minimus cost rate.

**City of Newport News, Virginia**

**Schedule of Findings and Questioned Costs**

**Year ended June 30, 2018**

**A. Summary of Auditor's Results**

1. The type of report issued on the basic financial statements: **Unmodified opinion**
2. Significant deficiencies in internal control disclosed by the audit of the financial statements: **None reported**
3. Material weaknesses in internal control disclosed by the audit of financial statements: **No**
4. Noncompliance, which is material to the financial statements: **No**
5. Significant deficiencies in internal control over major programs: **None reported**
6. Material weaknesses in internal control over major programs: **No**
7. The type of report issued on compliance for major programs: **Unmodified opinion**
8. Any audit findings which are required to be reported in accordance with 200.516(a) of the Uniform Guidance: **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 Cluster
93.558	Temporary Assistance for Needy Families
93.667	Social Services Block Grant

10. Dollar threshold used to distinguish between type A and type B programs: **\$1,211,761**
11. City of Newport News qualified as a low-risk auditee under in accordance with 200.516(a) of the Uniform Guidance: **Yes**

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

None reported

**C. Findings and Questioned Costs Relating to Federal Awards:**

None reported

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

None reported

**E. Status of Prior Year Findings:**

**2017-001: Social Services Systems Controls (DSS) – Finding not repeated**





# COMPREHENSIVE ANNUAL FINANCIAL REPORT 2018

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

City of Newport News, Virginia