



COMPREHENSIVE ANNUAL FINANCIAL REPORT 2015

CITY OF NEWPORT NEWS, VIRGINIA

FISCAL YEAR ENDED
JUNE 30, 2015



CITY OF NEWPORT NEWS, VIRGINIA

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2015

Prepared by the
Department of Finance

2400 Washington Avenue
Newport News, VA 23607

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City of Newport News

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November 25, 2015

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, 2015 (FY 2015).

Cherry Bekaert LLP, Certified Public Accountants, conducted the audit of the City's financial statements for the year ended June 30, 2015, and have issued an unmodified ("clean") opinion on those statements. The independent auditor's report is located at the front of the Financial Section of this report.

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

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

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

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 182,020, based on the 2014 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 financial accountability for those entities as well as their significant financial ties with the City.

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

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

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

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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 38th largest market in the United States and the largest metro between Washington and Atlanta, with a population estimate of 1.7 million.

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

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

Newport News Public School System

One of the most important services provided by a city to its taxpayers is the education of the children of the community. Schools provides a full range of public education services to approximately 29,118 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. Most employers were able to weather the recent economic turbulence without permanent downsizing.

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Newport News routinely enjoys unemployment rates lower than the national average. As of September 2015, the national unemployment rate was 5.1% (compared to the City's rate of 4.9%). In 2014, both the national and local rates were 6.2%.

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

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

Corporate Research Corridor

Jefferson Lab, a world-class national laboratory specializing in particle physics, has been present in Newport News for over 30 years. During that time, the Lab has won over \$3.2 billion in federal funding and made groundbreaking discoveries in nuclear physics. Jefferson Lab recently completed a \$400 million federally funded upgrade, doubling the power of the existing facility. Governor Terry McAuliffe visited Jefferson Lab in September 2014 to celebrate this new milestone, acknowledging the benefits of such a unique and important science asset (attracting over 1,300 international users annually), and as a significant contributor to the local economy.

Currently, Jefferson Lab has begun early project development of a Medium-Energy Electron Ion Collider (MEIC) in preparation to compete for a high-priority, next-generation Department of Energy multi-phased one billion-dollar science initiative. Jefferson Lab is one of two locations to compete for this new facility. The community benefit of the MEIC would be substantial; it would support a cumulative 5,000 new jobs over 7 to 10 years, generating local spending of about \$72 million annually. A corporate research center is planned adjacent to Jefferson Lab to facilitate the application of its basic research.

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

The first phase of construction, representing \$160 million in investment, began in February 2014, with The Marketplace at Tech Center substantially complete by the end of 2015. This strategically-located retail component features recently-opened merchants including Whole

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Foods Market and P.F. Chang's restaurant. Venture Apartments, a higher-end, 288-unit multifamily complex, is currently under construction.

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

Liebherr Mining Equipment Company

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

In February 2013, Governor Bob McDonnell announced that Liebherr would invest \$45.4 million to expand its operation in the Cities of Newport News and Hampton. The project will create 174 new jobs over a 48-month period. Governor McDonnell approved a \$500,000 Governor's Opportunity Fund grant to assist Newport News with the project coupled with an \$800,000 performance-based grant from the Virginia Investment Partnership program (an incentive available to existing Virginia companies).

In 2014, the City and E/IDA began coordinating efforts with an engineering consulting firm, Liebherr, and the City of Hampton to implement much-needed improvements to the transportation infrastructure critical to Liebherr's expansion and the overall appearance of Copeland Industrial Park. The City received approval of \$650,000 in State Economic Development Access Program and a \$1,000,000 Transportation Partnership Opportunity Fund grant to partially fund improvements.

Canon Virginia, Inc.

In January 2015, Canon announced plans to invest another \$100 million in its Newport News facility to add more printer cartridge production lines and increase its toner manufacturing operations. Newport News is Canon's U.S. manufacturing headquarters, serving as the manufacturing, engineering, recycling and technical support center for all the Americas. This announcement builds upon a \$623.5 million expansion in 2008 and another \$27 million announcement in 2013.

Continental Automotive Systems

On December 2008, Continental Automotive Systems announced consolidation of its diesel and gas fuel injection systems operations at its Newport News plant, closing its facilities near Columbia, South Carolina. Continental's decision retained the Newport News plant's existing jobs, with more than \$1.5 million in annual machinery and tools tax revenue for the City. In August 2014, Continental announced plans to invest \$152 million to expand Newport News operations, adding more than 500 jobs, doubling its employee base. Virginia and Newport News successfully competed with other U.S. and international locations for the project.

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University of Virginia/Virginia Tech Joint Education Center

In 2014, the University of Virginia/Virginia Tech Center in Newport News celebrated its first full year in existence. Since then, there has been tremendous growth at the Center through a variety of outreach events, for-credit and not-for-credit courses and specialized training cohorts designed to meet the needs of local businesses. In addition, each university has partnered with the E/IDA in offering free community lunch-and-learn workshops on topics such as crowdfunding, effective project management, creating customer loyalty through experience engineering, and using emotional intelligence in the workplace. The options that the University of Virginia and Virginia Tech bring, individually and in a collaborative manner, are a valuable resource to Newport News businesses.

Huntington Ingalls Industries and the Apprentice School Project

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

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

The Apprentice School opened in late 2013 as mixed-use redevelopment project in the City's traditional downtown area. The project included an 86,000-square-foot state-of-the-art new Apprentice School, 197 market-rate apprentice and workforce housing units, 30,416 square feet of retail, a 382-space parking garage, and green area in a campus-like setting on an approximately six acre site. The transformational project relocated the School from within the Shipyard properties into the greater community.

Brooks Crossing

In the Southeast Community, substantial progress has been made toward a mixed-use, market-based development between Jefferson and Terminal Avenues, announced in 2008 by the E/IDA and Aaron Brooks, a Newport News native and former University of Virginia and NFL quarterback. In 2011, Tidewater Partners Property and Development, Brooks' company, joined forces with Armada Hoffler of Virginia Beach to form Southeast Commerce Center Associates, LLC (SECCA), the development entity. In 2013, the Brooks Crossing Development Agreement was executed and rezoning for mixed-use development was approved. As 2014 milestones, the City and the E/IDA funded and authorized the first two phases of infrastructure and development of an approximately 19,000-square-foot turnkey South Police Precinct. The South Police Precinct is slated to be complete by mid-November 2015, with a ribbon cutting ceremony expected in January 2016.

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Jim's Local Market

For years, the City and E/IDA had been working with the private sector and more recently the Brooks Crossing developer, to bring a new grocery store to the Southeast Community. Three strategic goals for the project were to provide a sustainable source of healthy food options, neighborhood access to a full-service financial institution, and a source of new job opportunities. After considerable recruitment efforts, the E/IDA, City, and Developer were pleased to have four prospective grocery operators submit letters of intent by the end of 2014.

Jim Scanlon, a seasoned veteran of the grocery industry, was selected to serve as the operator of what will soon become "Jim's Local Market". This will be a full service grocery store with a focus on local produce and healthy food options, providing 50 full- and part-time positions with a special effort made to recruit from within the community. The 29,290 square-foot store and site work for the store and associated parking field are well underway with a target completion opening in first quarter 2016. In June 2015, Bayport Credit Union announced that it would open a branch inside the Jim's Local Market.

Tourism Zones and Entertainment District

On February 14, 2012, City Council established four tourism zones: Upper Warwick Boulevard/Denbigh, Southeast Community, Patrick Henry, and Greater Hilton Tourism Zone. Under the Local Tourism Zone Incentive Program, eligible businesses, existing or new, large or small, can qualify for a reimbursement of a portion of new taxes generated by the project. Larger projects may also be eligible for the Commonwealth's Tourism Development Financing Program. Under a combination of the local program and the Commonwealth's program, the City Center developers have made a capital investment of \$22,000,000 and committed to hiring over 525 employees associated with an entertainment district which includes several restaurants and a Paragon City Center 12 Theaters (an entertainment complex also including two additional restaurants). The E/IDA continues to market benefits of the Tourism Zones Incentive Program to potentially eligible tourism-related businesses.

Ferguson Enterprises

In June of 2013, the E/IDA sold 10 acres along Jefferson Avenue to Ferguson Enterprises in anticipation of the land being used as part of its corporate campus. Ferguson is near completion on a 15,000 square-foot product showroom, set to open in late 2015, and will be a welcome addition to the well-traveled Patrick Henry corridor.

Ft. Eustis Boulevard CSX Bridge Replacement Project

Built in the 1960s along with the adjacent Reservoir Bridge, this bridge over the CSX (Railroad) Corridor is a crucial component of Ft. Eustis Boulevard that provides east-west connectivity into and out of the Upper Warwick Corridor. This reconstructed bridge, with immediate on-ramp access to I-64, now provides a wider, safer passage for vehicles, with the new three-span bridge serving approximately 45,000 commuters per day. The \$8.3 million project was a City-

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administered, VDOT program, with the majority of funding committed through State Revenue Sharing dollars garnered by the Department of Engineering. Construction was complete in June 2015. The Reservoir Bridge, a second, longer bridge, is scheduled for replacement and to be completed in 2019 after a two-year construction period.

Interstate 64 Widening

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

Middle Ground Boulevard/City Center Boulevard

The City hosted a grand opening for the long-awaited and highly-anticipated extension of Middle Ground Boulevard on April 4, 2015. The completion of this east-west traffic corridor between Warwick Boulevard and Jefferson Avenue allows for much easier connectivity to the Greater Oyster Point area and to City Center at Oyster Point, the central business district for the entire Virginia Peninsula.

New Horizons Special Education Center

New Horizons Regional Education Center Association (New Horizons) is a non-profit, unincorporated association composed of the school boards of the Cities of Newport News, Hampton, Poquoson, Williamsburg/James City County, and the Counties of York and Gloucester. New Horizons provides a variety of regional, federally-mandated education programs including adult education, and programs serving children with disabilities. The Newport News campus includes over 76,148-square feet of buildings situated on twenty acres, operating for over twenty years as the largest of the nine regional education centers in Virginia in both size and scope of services, serving over 1,500 public school students and 1,200 adults annually. In 2013, New Horizons Trustees completed plans to construct a modern regional special education facility to meet future needs. The plans include a new 52,123-square foot, two-story building housing administrative offices, conference rooms, gymnasium, cafeteria, rest rooms, media center, 29 classrooms, functional and vocational labs, and therapy and sensory rooms. The E/IDA assisted in the solicitation, underwriting, placement and issuance of an \$11 million tax exempt construction-permanent financing facility for this valuable, regional education project. Construction is anticipated to be completed in December 2015.

Other

The City is now more than 95% developed, with most of its built environment oriented around automobile-dependent forms of development. New urbanism and sustainable development, which seek to recreate more pedestrian-friendly neighborhoods, have been successfully implemented in Newport News with such projects as City Center and Tech Center at Oyster

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Point, Port Warwick, Patrick Henry Place (construction expected in Summer/Fall 2016), Huntington Pointe (under construction) and Hilton Commons (in its planning phase). Recreating the City in this mode will be increasingly important for enhancing the City's quality of life and making it globally competitive to attract and retain a skilled, educated and creative labor force to support continued economic development.

Long-term financial planning and debt administration

As required by the City Code, the City Manager submits a multi-year Capital Improvements Plan (CIP) to City Council, no later than November 1 of each year. The FY 2016 to FY 2020 Capital Improvements Plan was approved by City Council on January 13, 2015. The CIP reflects the vision and priorities of the City Council for the construction and maintenance of the buildings and infrastructure improvements owned by the City. Although intended to be a commitment to a multi-year capital needs program, the CIP is fundamentally a planning document, subject to annual modification and amendment as changing priorities, availability of funding and other factors create the need for revision. Most projects in the CIP are funded by 20-year General Obligation Bonds issued by the City with level annual principal payments. The annual principal and interest payments (debt service) are budgeted in the City's annual operating budget. The General, Schools, Wastewater, Stormwater, and Solid Waste, Funds each pay a proportionate share of principal and interest payments. The Waterworks Fund pays all of the debt service related to its capital projects. The FY 2016 Budget provides that the General Fund will pay 80%, or \$49 million, of the total debt service budget of \$61.4 million.

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

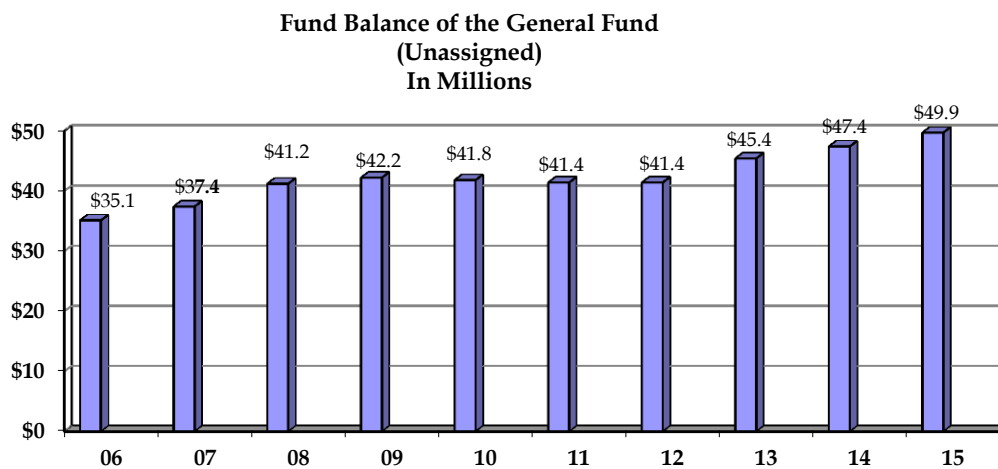
The following are the City's Capital Financing and Debt Management Policies:

- The goal of the City is to maintain its debt burden below 3.0%. Debt burden is defined as the ratio of outstanding general obligation debt and capital lease obligations to the total value of the taxable real and personal property. The projected FY 2016 debt burden is 2.3%.
- Debt service obligations are primarily funded from school and municipal revenues received through the Operating Budget. The City's informal policy is that the ratio of debt service obligations to General Fund revenue should not exceed nine and one-half percent (9.5%) in any fiscal year. For FY 2016 the ratio is projected to be 8.2%.
- The City's intent, when issuing new General Obligation debt or refinancing existing debt, is to structure principal payments so that at least thirty percent (30%) of the total outstanding debt is repaid within five years, and that at least sixty percent (60%) is repaid within ten years. Currently 43% of the outstanding debt is scheduled to be paid in five years, with 73% paid in ten years.

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- 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 2015, General Fund revenues exceeded expenditures, by \$3.2 million. The unassigned General Fund balance totaled \$49.7 million at June 30, 2014, or approximately 11.5% 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 a slight increase expected for FY 2016, 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 2015-2016 is stable with some moderate revenue growth expected and continued cost-saving efforts. We feel that current management initiatives, along with prudent long-range strategic and comprehensive planning, will enable the City to generate sufficient resources to meet future service demands, maintain a stable financial position, protect the City's high credit rating, and maintain realistic and affordable tax burdens on the citizens.

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Significant Strategic Priority Accomplishments for FY 2015

Of all of the significant accomplishments and initiatives undertaken or completed during the year ended June 30, 2015, some of the more significant are listed below.

Operational Efficiencies and Fiscal Management

In April 2014, the financial ratings agency Standard & Poor's (S&P) upgraded the City's long-term credit rating one level, from AA to AA+, which is S&P's second highest rating. A second rating agency, Moody's, maintained the City's AA2 rating, the second highest they offer. A strong credit rating makes it easier for borrowers to gain access to capital, usually at a lower interest rate. Standard and Poor's assessed the City's outlook as stable noting, "We consider Newport News' management conditions very strong, supported by strong policies and practices. In our view, practices are strong, well embedded, and likely sustainable. The City adopted a detailed 5-year financial forecast for fiscal years 2015-2019, which it plans to update on an annual basis." With "very strong budgetary flexibility given its historically strong performance and good financial practices," S&P went on to note that they do not anticipate changing the rating in the next two years.

Community Renewal, Maintenance and Enhancement

- The City's Inaugural One City Marathon was held March 15, 2015 with nearly 2,600 participants. The 26.2 mile marathon course extended nearly the length of the City, from northern Newport News Park to the southern downtown Victory Arch, primarily along Warwick Boulevard.
- The \$7.2 million Peninsula Regional Animal Shelter was completed in FY 2015. The new shelter is 30,000 square foot facility serving the municipalities of Newport News, Hampton, Poquoson, and York County with a capacity for 179 dogs and 210 cats.
- The first section of the newly rebuilt James River Fishing Pier opened in May 2015. The original James River Fishing Pier opened in 1976, consisting of a portion from the original 1928 James River Bridge, built between Newport News and Isle of Wight County. Phase 2 will extend the 12-foot wide pier to a final length of 2,352 linear feet, projected to be completed in May 2016, bringing 60,000 anglers per year to the City.
- A \$1.5 million tennis center office/clubhouse facility with locker rooms, showers and meeting facilities was completed with a state-of-the-art facility replacing a much smaller 39-year old wooden structure.
- Three sidewalk projects funded by \$1,650,000 of Congestion Mitigation and Air Quality (CMAQ) federal grant funds were completed in FY 2015. The Warwick Boulevard and J. Clyde Morris Boulevard projects provide wide sidewalks for Bicycle and Pedestrian use. Virginia Transportation Partnership Opportunity Funds of \$800,000 completed two

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sidewalk projects along Canon Boulevard, with the additional 6,500 linear feet for bike and pedestrian access.

- The City secured State Revenue Sharing Program allocations totaling \$6,825,000 for major projects supported by these funds include Atkinson Boulevard Construction, Replacement of Huntington Avenue Bridge, and Patrick Henry Drive Extension.
- Highway Safety Improvement Program Federal Grants provided approximately \$775,000 for intersection improvements at Warwick Boulevard and Colony Road, and Jefferson Avenue and Brick Kiln Boulevard.
- Enhancements were made to the City's intelligent transportation network by upgrading magnetic loops with over 300 digital video detection cameras. These cameras provide accurate and reliable information to the traffic signal management system for improved efficiency in traffic flow.
- Construction was completed of a new multi-generational outdoor playground and fitness center adjacent to the new Denbigh Community Center, providing low impact strength training activities for older adults as well as interactive play for younger children.
- A \$415,000 refurbishment of the Newport News Golf Club cart paths at Deer Run was completed, involving replacing and repaving hundreds of asphalt sections over the 10 miles of designated golf pathways.
- The South Morrison Public Library, a branch of the Newport News Public Library System, celebrated its Grand Opening on February 24, 2015. The library is a member of the South Morrison Family Education Partnership, which is comprised of the Public Library System, the Newport News Public School System, Alternatives Inc., and Big Brothers Big Sisters. The library features two computer labs, an early literacy center, a teen zone, and children and adult reading areas.
- The City's and the City's non-profit Green Foundation helped develop the first public use project as a walking trail around the Foundation's property at Chatham Drive. The project included almost \$20,000 of City funding to construct the trail with an adjacent fence and bridge.
- In June 2014, the City and the Newport News Redevelopment and Housing Authority hosted a charrette (design workshop) for the Superblock property located in the heart of historic downtown (bound by Washington Avenue, West Avenue, 26th Street, and 28th Street). The consultant, Rhodeside & Harwell, Inc., conducted the two-day charrette with individual stakeholder interviews to develop a concept plan that highlights the area's assets and illustrates how property development can jump start downtown revitalization, and changing public perceptions of downtown. The *Superblock Charrette*

CITY OF NEWPORT NEWS, VIRGINIA

Study was submitted to the American Planning Association, Virginia Chapter Awards Committee in the spring of 2015 and selected for the Outstanding Plan Award. The award was presented at the chapter's annual conference on July 22, 2015.

- The Jefferson Avenue Streetscape Phase II construction design is at 96% complete. The project will continue to beautify lower Jefferson Avenue from 12th to 24th Streets with storm water and sanitary sewer improvements, new curb and gutter, paving and crosswalks with designated on-street parking, and wide landscaped sidewalks with street trees and decorative signal and light poles. Construction is anticipated to begin in summer 2017.
- The City through the Department of Parks, Recreation and Tourism hosted the Virginia Senior Games for the 3rd consecutive year in FY 2015. The games, subsidized from a combination of donations, sponsorships and operating budget funds, involved over 700 athletes participating in 18 different sporting events at 12 different venues.
- The City's first annual World Arts Celebration was held on May 30, 2015 at City Center. The event was co-produced by the Virginia Arts Festival and the Department of Parks, Recreation and Tourism. This event highlighted a variety of different countries and cultures through exhibits, music, dance, food, and artwork.

Environmental Stewardship and Sustainability

- The Inaugural Newport News One City Marathon held March 13-15, 2015, was certified as a Virginia Green event. The Marathon Committee worked diligently to keep the event as green as possible, minimizing the environmental impact and increasing awareness about protecting natural resources.
- The Department of Public Works Safety and Training Office transitioned from a paper certificate filing system to an electronic system. Employees are able to electronically submit their training certificates, eliminating paper copies and the filing time.
- The Department of Public Works Solid Waste Division completed the Menchville Landfill-Park transition. Closed in 1983, the Landfill has been conscientiously monitored as a safety priority. The Department of Parks, Recreation and Tourism expressed an interest to use the virtually dormant land for limited recreational purposes. The Department of Public Works commissioned a study by independent professional consultants to ascertain the facility's potential as a park, and after an in-depth review and series of tests for more than a year to confirm the public's safety, Public Works received approval to allow use of the 56 acres as a City park.
- The City's inter-departmental Environmental Workgroup partnered with Newport News Public Schools as they launched the Summer Program for Arts, Recreation and

CITY OF NEWPORT NEWS, VIRGINIA

Knowledge (SPARK) for over 2,000 City youth. Environmental Workgroup members and support staff from the Departments of Engineering, Parks, Recreation and Tourism, Public Works, and Waterworks engaged students with the City Pride track presenting environmental issues, including stormwater pollution prevention, landscaping and safety, recycling, wastewater treatment, good housekeeping practices, and water conservation.

- The Department of Planning and the Comprehensive Plan Citizen Advisory Committee completed its public outreach activities for the data collection phase of the comprehensive plan update, and is finalizing the existing conditions assessment. The *One City One Future Comprehensive Plan* will be organized by common themes and guiding principles to address the interrelationships between the different plan components and provide a framework for a sustainable city long term.
- The Chesapeake Avenue Bike Trail project, currently under design, will provide for a separate pedestrian promenade walkway along the Chesapeake Avenue seawall, and convert the existing bike route to a dedicated bike lane, separating bicycle travel from motor vehicle travel. In 2014, the City received a \$400,000 Moving Ahead for Progress in the 21st Century (MAP-21) Transportation Alternatives Program (TAP) grant, which requires a 20% local match of \$100,000. Cost to construct the trail is estimated at \$1.4 million, with the city is pursuing other grants to fully fund the trail.
- The City was awarded a matching funds grant of \$804,000 for planning, design, and implementation of stormwater best management practices that address cost efficiency and commitments related to reducing water quality pollutant loads through the Virginia General Assembly Stormwater Local Assistance Fund.

Public Safety

- In March 2015, with the assistance of a consultant with years of citizen-based collaborative experience, the Police Department formed a 50 member Steering Committee which met monthly, establishing six major goals for a citizen-based Creating Responsibility In My Environment (C.R.I.M.E.) plan. The community-based plan will expand into teams, with each team focusing on one of the six goals. The purpose of this endeavor is to increase community involving in policing the City.
- The Police Department is entering the second full funding year of the COPS Hiring Grant, allowing the department to hire ten police officers. The federal grant provides \$1.25 million in salaries and fringe benefits for the officers over the three-year period.
- On July 1, 2015, the Fire Department received an Insurance Service Office (ISO) Class 1 Public Protection Classification (PPC) rating. The PPC ratings are used by the insurance industry to help establish fire insurance premiums for the community. It is anticipated that this rating could provide savings of approximately 1% on residential premiums and

CITY OF NEWPORT NEWS, VIRGINIA

3% on commercial insurance premiums. Only 97 fire-response jurisdictions out of 49,000 in the country have a Class 1 rating, with just three in Virginia. This rating was achieved by the continued dedication and support by the City in the areas of improving fire protection, water supply and the emergency 911 communications system.

- The Fire Department completed the annual review process for Fire Service Accreditation as required by the Center for Public Safety Excellence (CPSE). The department continues to focus in on response times to emergency calls to provide the best service possible to citizens. NNFD is one of only 183 accredited fire departments in the world.
- As of July 12, 2015, the City launched the Curfew Center, housed in the third floor of the Justice Building. The Newport News Department of Human Services' Children in Need of Supervision/Services (CHINS) Unit joined community and city partners including Newport News Police Department, Sheriff's Office, and Newport News Court Services Intake Unit in an effort to address the challenge of juvenile curfew violators, and violence and delinquency among the youth within the City of Newport News.

Other Community and Citizen Services

- The Newport News Department of Human Services (NNDHS) deals with the neediest citizens, and is best known for benefit programs, child protective services, foster care, and adult services. According to the FY 2014 Virginia Department of Social Services (VDSS) data, NNDHS provided services to approximately 62,448 individuals through various VDSS-supported programs. The total amount spent (Federal, State, and Local) on Social Services was \$322.1 million including approximately \$10.8 million spent by the City. Forty-nine (49) children were safely discharged from Foster Care to adoption and/or reunification with their families during the past fiscal year
- The Newport News Department of Human Services (NNDHS) received a FY 2015 \$434,000 Maternal, Infant, Early Childhood Home Visitation (MIECHV) grant from the Virginia Department of Health. The MIECHV Grant funds local sites to improve early childhood systems of care including access to prenatal appointments. NNDHS with the Peninsula Health District provided nursing services as part of this grant. For FY 2016, NNDHS will receive a one year \$417,000 continuation grant to serve an additional 88 local families using an evidence-based home visiting best practice model.
- The Department of Public Works Street Maintenance Division implemented a Brine Production System in the winter of 2015. The Street Maintenance Division installed the salt brine maker, two brine storage tanks, and a calcium chloride tank during the summer/fall of 2014. Anti-icing has the potential to provide the benefit of increased traffic safety at the lowest cost. During the 2015 snow and ice season, the division applied approximately 114,000 gallons of salt brine with three brine applicators.
- During Teen Tech Week, the Newport News Public Library System held a workshop for high school aged youth (13-18) with technology building skills, where students were

CITY OF NEWPORT NEWS, VIRGINIA

taught how to build and fly an unmanned aerial vehicle (UAV). This was a five part workshop sponsored by Best Buy.

- The Newport News Public Library System is a proud sponsor of the Mayors' Book Club. The Mayors' Book Club engages families with young children in an exciting adventure of reading together. Supported through public and private partnerships, the program reinforces the goal of helping all children have a healthy start in life and enter school ready to learn and ready to succeed. Activities promote early literacy, improve the social and emotional development of young children, and increase the likelihood that children grow up in an environment where books are available and literacy is valued. Over 1,400 were read to each month October 2014 through May 2015 at each of the four early learning centers sponsored by the Newport News Public Schools.
- The Library System donated 2,141 pounds or 1,986 items of food and personal items to the Foodbank of the Virginia Peninsula during its annual Can Your Fines campaign. This program has been a holiday tradition for more than 25 years, allowing for a nonperishable, non-expired food item or personal item to take the place of a fine for overdue materials. Over 263 overdue items were returned during November 29 to December 30, 2014.
- The City's libraries had over 829,290 visitors for FY 2015, who checked out over 951,241 items. Over 192,046 visitors used the library computers.
- The Summer Reading Program encourages youth to read during their summer vacation, and helps to develop healthy reading habits. The Summer Reading Program Youth Enrollment was 2,185. Over 3,612 youth participated in the Library System's Summer Reading Program Activities.

Awards

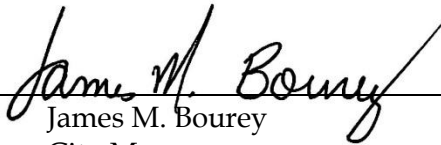
The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Newport News for its comprehensive annual financial report (CAFR) for the year ended June 30, 2014. This was the 36th consecutive 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 37th consecutive certificate.

CITY OF NEWPORT NEWS, VIRGINIA


Acknowledgments

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

Respectfully submitted,



James M. Bourey
City Manager



Tom Mitchell
Director of Finance

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CITY OF NEWPORT NEWS, VIRGINIA

CITY GOVERNMENT OFFICIALS (at June 30, 2015)

City Council

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

Office of the City Manager

James M. Bourey City Manager
Cynthia D. Rohlf Assistant City Manager
Alan K. Archer Assistant City Manager

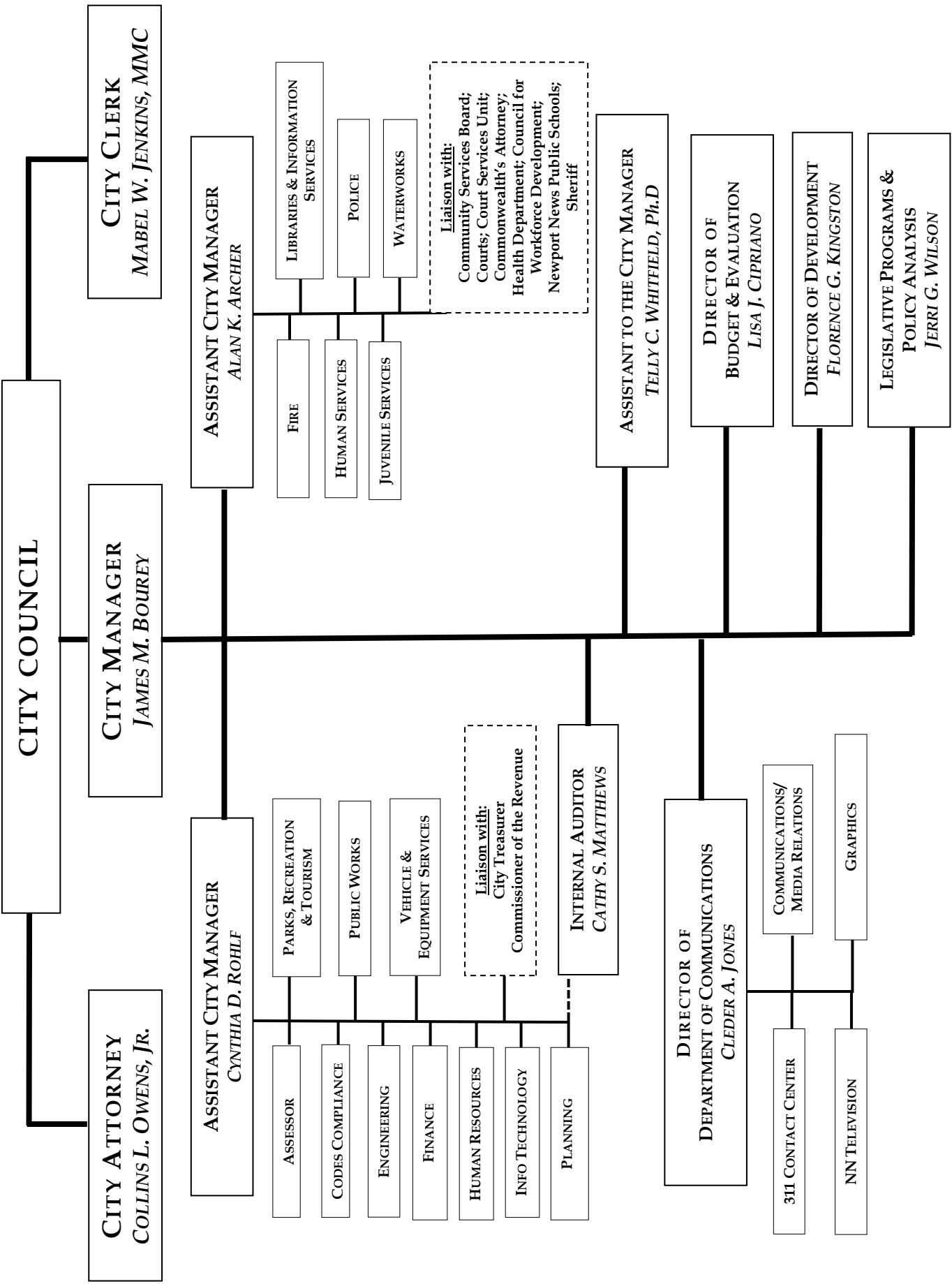
Department of Finance

Tom Mitchell Director of Finance
Tonya O'Connell Assistant Director of Finance
William Rose Acting Accounting Manager

Other Officials

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

On July 8, 2014, Councilman Robert Coleman was elected by Council members as Vice Mayor. Councilwoman Cherry was elected to the City Council, effective July 1, 2014.





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, 2014

Executive Director/CEO

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Report of Independent Auditor

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newport News, Virginia (the "City"), as of and for the year ended June 30, 2015, 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 (the GAAP); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Peninsula Airport Commission, which represents 21.57% of the respective assets, 2.11% of the respective revenues, and 135.24% 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 opinions, insofar as they relate to the amounts included for the Peninsula Airport Commission, are based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards 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, 2015, 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

Implementation of GAAP

As discussed in Note 1 to the basic financial statements, the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, effective July 1, 2014. As a result, related net position as of June 30, 2014 has been restated. Our opinions are not modified with respect to this matter.

Correction of Error

As discussed in Note 1 to the basic financial statements, the City's Governmental Activities' net position as of June 30, 2014 has been restated from the previously issued financial statements to reflect the correction of an error. 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, budgetary comparison, pension and other postemployment benefits information and related notes on pages 3-13, 106-110, 111-115 and 116-117, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section, Supplementary Information, and Statistical Section 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 25, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Richmond, Virginia
November 25, 2015

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, 2015 (FY 2015). 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 2015

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 \$176.9 million. This amount represents an increase of \$18.5 million or 11.7%, over prior year's ending balance of \$158.4 million, which was restated to reflect the implementation of Governmental Accounting Standards Board's Statement Number 68, *Accounting and Financial Reporting for Pensions (GASB 68) - an amendment of GASB Statement No. 27*, Statement Number 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, and the reporting of the line of duty obligation.

The dramatic change in the City's ending net position is largely due to the reflection of GASB 68 and 71, which required the City to restate the net pension liability and net pension asset. As a result of the implementation, beginning net position of the Primary Government was restated from \$484.5 million to \$426.8 million at June 30, 2014.

General Fund

- At the close of FY 2015, unassigned fund balance for the General Fund was \$49.7 million or 11.25% of FY 2015 total General Fund revenues and transfers in.
- General Fund revenues and transfers increased \$11.1 million or 2.6% above FY 2014, due to an increase in general taxes, primarily real property taxes. Expenditures and transfers out increased \$11.4 million, 2.7% higher than the prior fiscal year. FY 2015 expenditures and transfers out were 0.7% less than budget.
- The City's real estate tax rate of \$1.22 per \$100 of assessed valuation remained unchanged for FY 2015. 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, 2015 by \$176.9 million. Of this amount, \$15.5 million was restricted.
- The City's total bonded debt decreased by approximately \$38.3 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

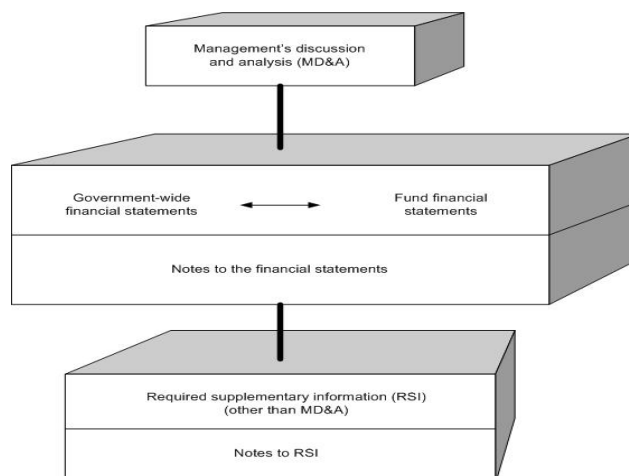
The City's basic financial statements comprise three components: *government-wide financial statements*, *fund financial statements*, and *notes to the financial statements*. This report also contains other supplementary information in addition to the basic financial statements themselves.

- 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 and street maintenance were financed in the short term as well as what amounts remain for future spending.
- *Proprietary fund* statements offer short- and long-term financial information about the activities the government operates like businesses, such as the public utilities (Waterworks) system.
- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong. The Pension fund is an example of a fiduciary fund of the City.

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

Figure A

Required Components of Newport News' Financial Statements



CITY OF NEWPORT NEWS, VIRGINIA

MANAGEMENT’S DISCUSSION AND ANALYSIS

Government-Wide Statements

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

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

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

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

Fund Financial Statements

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

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 Waterworks Fund. Internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for the operation of vehicles and equipment and includes this activity in its government-wide financial statements.
- *Fiduciary funds* – The City is the trustee, or fiduciary, for certain donated funds. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in this fund are used for their intended purpose. The fiduciary funds include the Pension and Other Postemployment Benefits Trust Funds, Agency Funds and the Line of Duty Act Fund. These activities are reported in a separate statement of fiduciary net position. The City excludes this activity from its government-wide financial statements because the City cannot use these assets to finance its operations.

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

Notes to the Basic Financial Statements

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

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

Statement of Net Position

The following table reflects the condensed net position:

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2014*	2015	2014*	2015	2014*
Current and other assets	\$ 215.0	228.0	100.6	97.2	315.6	325.2
Capital assets, net	710.9	703.2	382.6	381.8	1,093.5	1,085.0
Total assets	<u>925.9</u>	<u>931.2</u>	<u>483.2</u>	<u>479.0</u>	<u>1,409.1</u>	<u>1,410.2</u>
Deferred contributions	25.8	23.2	3.2	2.4	29.0	25.6
Debt refundings resulting in loss	12.8	14.6	2.8	3.2	15.6	17.8
Total Deferred outflows of resources	<u>38.6</u>	<u>37.8</u>	<u>6.0</u>	<u>5.6</u>	<u>44.6</u>	<u>43.4</u>
Current and other liabilities	119.9	96.6	55.0	55.4	174.9	152.0
Long-term liabilities	637.1	713.2	143.2	160.8	780.3	874.0
Total liabilities	<u>757.0</u>	<u>809.8</u>	<u>198.2</u>	<u>216.2</u>	<u>955.2</u>	<u>1,026.0</u>
Deferred pension gains	29.3	-	4.4	-	33.7	-
Property taxes collected in advance	1.3	0.8	-	-	1.3	0.8
Total Deferred inflows of resources	<u>30.6</u>	<u>0.8</u>	<u>4.4</u>	<u>-</u>	<u>35.0</u>	<u>0.8</u>
Net position:						
Net investments in capital assets	362.5	344.2	284.6	243.5	647.1	587.7
Restricted	15.5	11.1	-	28.0	15.5	39.1
Unrestricted (Deficit)	(201.1)	(196.9)	2.0	(3.1)	(199.1)	(200.0)
Total net position	<u>\$ 176.9</u>	<u>158.4</u>	<u>286.6</u>	<u>268.4</u>	<u>463.5</u>	<u>426.8</u>

*Balances were restated to reflect implementation of GASB 68, 71 and line of duty obligation.

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

CITY OF NEWPORT NEWS, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Approximately 8.9% of the City's net position is subject to external restrictions, mostly for the use of bond proceeds for Waterworks projects.

Governmental Activities

Net position of the City's governmental activities increased from \$158.4 million (restated) at June 30, 2014 to \$176.9 million at June 30, 2015 as a result of the excess of revenues over expenses for FY 2015 of \$18.5 million as shown on the Statement of Activities (Table 2 following).

Business-type Activities

The City's public utility (Waterworks) is an enterprise operation. The net position of Waterworks increased from \$268.4 million (restated) to \$286.6 million, as a result of excess revenues over expenses for FY 2015. The City uses the net position of the enterprise fund to finance the continuing operations of its Waterworks operation.

Statement of Activities

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

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2014*	2015	2014*	2015	2014*
Revenues:						
Program revenues:						
Charges for services	\$ 81.8	73.1	88.8	85.6	170.6	158.7
Operating grants and contributions	41.5	41.2	-	-	41.5	41.2
Capital grants and contributions	9.9	8.2	-	-	9.9	8.2
General revenues:						
Property taxes	250.9	246.1	-	-	250.9	246.1
Other taxes	100.4	96.4	-	-	100.4	96.4
Grants and contributions not restricted to specific programs	43.2	42.2	2.4	2.3	45.6	44.5
Investment earnings	2.4	2.3	0.2	0.2	2.6	2.5
Miscellaneous	10.5	9.4	1.0	0.7	11.5	10.1
Total revenues	<u>540.6</u>	<u>518.9</u>	<u>92.4</u>	<u>88.8</u>	<u>633.0</u>	<u>607.7</u>
Expenses:						
General government	95.4	104.9	-	-	95.4	104.9
Judicial administration	6.7	7.3	-	-	6.7	7.3
Public safety	112.8	125.1	-	-	112.8	125.1
Public works	70.5	77.2	-	-	70.5	77.2
Health and welfare	39.2	44.2	-	-	39.2	44.2
Education	147.6	119.7	-	-	147.6	119.7
Parks, recreation and culture	31.5	35.0	-	-	31.5	35.0
Community development	7.4	10.5	-	-	7.4	10.5
Public utility	-	-	64.7	93.9	64.7	93.9
Interest and other fiscal charges	20.5	20.6	-	-	20.5	20.6
Total expenses	<u>531.6</u>	<u>544.5</u>	<u>64.7</u>	<u>93.9</u>	<u>596.3</u>	<u>638.4</u>
Excess (deficiency) before transfers	9.0	(25.6)	27.7	(5.1)	36.7	(30.7)
Transfers	9.5	9.4	(9.5)	(9.4)	-	-
Change in net position	18.5	(16.2)	18.2	(14.5)	36.7	(30.7)
Beginning net position - (restated)	158.4	174.6	268.4	282.9	426.8	457.5
Ending net position	<u>\$ 176.9</u>	<u>158.4</u>	<u>286.6</u>	<u>268.4</u>	<u>463.5</u>	<u>426.8</u>

*Balances were restated to reflect implementation of GASB 68, 71, and line of duty obligation.

CITY OF NEWPORT NEWS, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

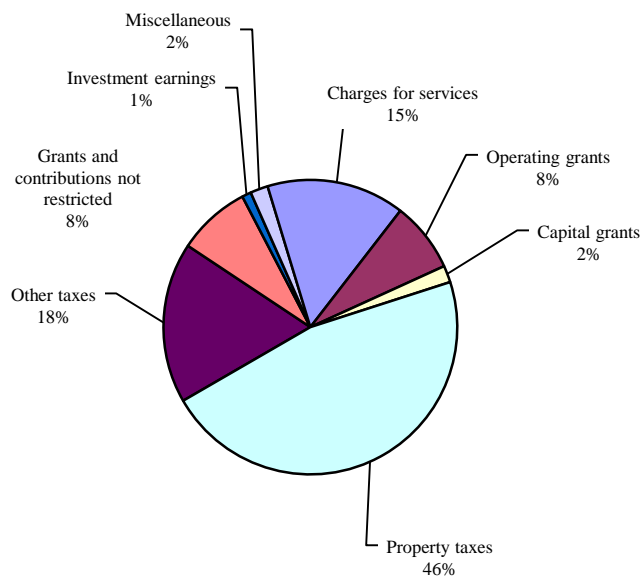
Governmental Activities

The City's total revenues from governmental activities were \$540.6 million for the fiscal year ended June 30, 2015. The largest source of revenue (\$250.9 million for FY 2015) is real estate and personal property taxes. The City's assessed real property tax base for FY 2015 increased .7%.

Approximately 64% of the City's revenue from governmental activities comes from some type of tax and 15% comes from fees charged for services.

The City's expenses cover a wide range of services, with 21.2%, or \$112.8 million, for FY 2015 related to public safety and 27.8%, or \$147.6 million, for FY 2015 for education (payments to the Schools component unit).

Revenues by Source – Governmental Activities



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

Business-type Activities

The net position for the City's business-type activities increased by \$18.2 million as a result of revenues exceeding the expenses of the operations. Charges for services make up 95.3% 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 \$100.5 million of which \$49.7 million represents an unassigned fund balance. As a measure of the General Fund's liquidity, it is useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 12.9% of the total fund expenditures (11.5% of total revenues), while total fund balance represents 26%.

Debt Service Fund

The Debt Service Fund has a fund balance of \$1.7 million. During FY 2015, the fund balance increased by \$0.1 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 \$45.3 million at June 30, 2014 to a deficit of \$5.6 million at June 30, 2015, due to ongoing construction projects.

Proprietary Funds

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

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

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund (Budget Basis)
Fiscal Year 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budget Basis)</u>
Revenues:			
Taxes	\$ 346,440,942	346,440,942	348,659,868
Intergovernmental	41,567,655	41,635,655	43,235,474
Other	53,016,648	53,016,648	49,815,414
Total	<u>441,025,245</u>	<u>441,093,245</u>	<u>441,710,756</u>
Expenditures and Transfers:			
Expenditures	394,050,614	394,118,614	388,632,637
Transfers out	46,974,631	46,974,631	49,531,134
Total	<u>441,025,245</u>	<u>441,093,245</u>	<u>438,163,771</u>
Change in fund balance	\$ <u>-</u>	<u>-</u>	<u>3,546,985</u>

The difference between the original budget and the final amended budget for the City's General Fund expenditures was approximately .07 million representing an increase in appropriations to fund technology enhancements for the Clerk of the Circuit Court.

Actual General Fund revenues and transfers from other funds were above the final budgeted revenues by \$.6 million because of higher than expected tax revenue. Expenditures were under budget by \$5.5 million due to spending restraints put in place during the fiscal year, and transfers out were over budget by \$2.6 million due to additional funding for capital projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2015 totaled \$1,093.4 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 \$71.9 million for governmental activities at the end of FY 2015 (including certain Public Schools projects under construction).

Construction in progress totaled \$26.4 million for business-type activities at the end of the fiscal year including the following projects: Walker's Dam rehabilitation, \$13.0 million; Harwoods Mill modernization, \$4.5 million, Lee Hall Dam improvements, \$3.1 million and Diascund Dam Principal Spillway, \$1.8 million.

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

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

	Governmental Activities		Business-type Activities		Total	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Land	\$ 88,823,815	\$ 88,794,145	7,976,985	7,302,367	96,800,800	96,096,512
Construction in progress	71,944,449	75,563,889	26,434,865	18,835,117	98,379,314	94,399,006
Buildings	229,332,990	229,441,672	98,932,848	102,585,159	328,265,838	332,026,831
Water systems	-	-	231,227,870	232,655,204	231,227,870	232,655,204
Improvements	104,255,428	95,975,206	9,776,658	10,465,907	114,032,086	106,441,113
Machinery and equipment	46,192,629	45,415,290	8,118,463	9,960,969	54,311,092	55,376,259
Infrastructure	170,362,006	168,008,561	-	-	170,362,006	168,008,561
	<u>\$ 710,911,317</u>	<u>\$ 703,198,763</u>	<u>382,467,689</u>	<u>381,804,723</u>	<u>1,093,379,006</u>	<u>1,085,003,486</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 \$471.5 million, a decrease of 10.0% from last year, as shown in the table below. Capital leases, landfill liability, accrued vacation, net pension obligations, other postemployment benefit obligations and claims payable are not included in these figures.

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

	Governmental Activities		Business-type Activities		Total	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
General obligation bonds	\$ 345.5	383.8	86.0	98.6	431.5	482.4
Literary loans	5.0	5.4	-	-	5.0	5.4
Revenue bonds	-	-	35.0	35.9	35.0	35.9
Total	<u>\$ 350.5</u>	<u>389.2</u>	<u>121.0</u>	<u>134.5</u>	<u>471.5</u>	<u>523.7</u>

The amount of the debt outstanding related to School Board activities is \$83.9 million of the total outstanding general obligation bonds of the governmental activities.

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

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The unemployment rate in June 2015 for the City was 6.0%, which is a decrease from the average for 2014 of 6.4%, and is consistent with other areas of the Commonwealth. The City's annual population increased slightly from approximately 182,020 at the end of fiscal year 2014 to 182,965 at the end of fiscal year 2015 according to US Census estimates.

The FY 2016 approved revenue budget for the General Fund increased by 3.7% compared to the FY 2015 adopted budget. The FY 2016 budget includes allocations for 7,231 positions (including schools), a net decrease of 16 positions from the FY 2015 budget.

City management believes that the effect of the recession will continue to subside in FY2016, with strengthening signs of economic recovery and this will be reflected more consistently throughout the local economy. Strategic focus areas include providing the capital assets required to maintain City assets and operations in an environmentally friendly way, providing the funding to Schools for improvement in educational opportunities for students, promoting opportunities for economic development and job creation, and maintaining a motivated and service focused workforce.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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CITY OF NEWPORT NEWS, VIRGINIA
Statement of Net Position
June 30, 2015

Assets	Primary Government			Discretely presented component units	
	Governmental activities	Business-type activities	Total	Public schools	Others
Cash and cash equivalents	\$ 127,483,166	44,228,935	171,712,101	40,701,167	8,578,315
Restricted cash and investments	20,692,029	26,355,721	47,047,750	-	14,253,811
Accounts receivable, net	24,245,531	13,723,248	37,968,779	236,148	6,255,692
Receivable from Industrial Development Authority	10,156,140	-	10,156,140	-	-
Receivable from Primary Government	-	-	-	18,988,202	-
Receivables from other governments	21,728,807	-	21,728,807	12,511,117	-
Due from Pension Fund	1,265,851	-	1,265,851	-	-
Due from OPEB Fund	2,108,420	-	2,108,420	-	-
Inventory, at cost	1,947,951	3,570,167	5,518,118	1,556,571	72,319
Land held for lease or resale	-	7,102,444	7,102,444	-	30,655,675
Wetlands credits	-	5,530,135	5,530,135	-	-
Net investment in direct financing leases	-	-	-	-	80,987
Net pension asset	3,661,741	278,976	3,940,717	865,000	50,305
Capital assets:					
Nondepreciable capital assets:					
Land	88,823,815	7,976,985	96,800,800	2,505,084	6,604,658
Construction in progress	71,944,449	26,434,865	98,379,314	3,219,584	6,691,760
Depreciable capital assets:					
Buildings	353,555,374	152,155,622	505,710,996	50,625,313	195,895,590
Improvements	202,817,899	-	202,817,899	53,192,358	14,327,640
Water system	-	412,957,264	412,957,264	-	-
Airport assets	-	-	-	-	165,736,667
Machinery and equipment	151,541,310	34,319,010	185,860,320	64,603,595	6,505,500
Infrastructure	508,098,130	-	508,098,130	-	2,543,500
Total capital assets	<u>1,376,780,977</u>	<u>633,843,746</u>	<u>2,010,624,723</u>	<u>174,145,934</u>	<u>398,305,315</u>
Less accumulated depreciation	<u>(665,869,660)</u>	<u>(251,376,057)</u>	<u>(917,245,717)</u>	<u>(99,215,637)</u>	<u>(132,807,003)</u>
Capital assets, net	710,911,317	382,467,689	1,093,379,006	74,930,297	265,498,312
Restricted assets:					
Permanently restricted cash	1,705,995	-	1,705,995	-	-
Other assets	-	-	-	16,864,615	992,609
Total assets	<u>925,906,948</u>	<u>483,257,315</u>	<u>1,409,164,263</u>	<u>166,653,117</u>	<u>326,438,025</u>
Deferred Outflows of Resources					
Deferred pension contributions	23,569,764	2,933,669	26,503,433	6,754,842	-
Deferred VRS contributions	2,209,287	184,676	2,393,963	22,531,158	158,918
Deferred swap outflow	-	-	-	-	1,236,300
Debt refundings resulting in loss transactions	<u>12,846,746</u>	<u>2,821,173</u>	<u>15,667,919</u>	<u>-</u>	<u>6,787,478</u>
Total deferred outflows	<u>38,625,797</u>	<u>5,939,518</u>	<u>44,565,315</u>	<u>29,286,000</u>	<u>8,182,696</u>
Liabilities					
Accounts payable	24,253,638	4,006,703	28,260,341	5,923,849	2,555,107
Accrued liabilities	8,951,479	4,037,964	12,989,443	28,620,949	854,659
Deposits	3,896,846	3,612,456	7,509,302	-	28,106
Unearned revenues	191,990	32,427,958	32,619,948	89,120	34,638
Payable to Newport News Public Schools	18,988,202	-	18,988,202	-	-
Payable to Primary Government	-	-	-	-	10,156,140
Long term liabilities:					
Due within one year	63,661,984	14,558,864	78,220,848	4,628,265	9,753,137
Due in more than one year	<u>637,091,510</u>	<u>139,588,812</u>	<u>776,680,322</u>	<u>367,795,287</u>	<u>113,842,091</u>
Total liabilities	<u>757,035,649</u>	<u>198,232,757</u>	<u>955,268,406</u>	<u>407,057,470</u>	<u>137,223,878</u>
Deferred Inflows of Resources					
Property taxes collected in advance	1,329,870	-	1,329,870	-	-
Deferred pension investment gains	28,633,297	4,360,967	32,994,264	12,075,565	-
Deferred VRS investment gains	655,242	49,921	705,163	41,383,000	388,818
Deferred grant proceeds	-	-	-	405,198	-
Total deferred inflows	<u>30,618,409</u>	<u>4,410,888</u>	<u>35,029,297</u>	<u>53,863,763</u>	<u>388,818</u>
Net Position					
Net investment in capital assets	362,541,053	284,602,082	647,143,135	73,864,578	153,950,275
Restricted for:					
Capital projects	2,184,889	-	2,184,889	843,128	12,771,889
Debt service	1,705,995	-	1,705,995	-	1,481,922
Grants	2,071,824	-	2,071,824	-	-
Other governmental purposes	9,479,135	-	9,479,135	4,221,269	-
Unrestricted (deficit)	<u>(201,104,209)</u>	<u>1,951,106</u>	<u>(199,153,103)</u>	<u>(343,911,091)</u>	<u>28,803,939</u>
Total net position	<u>\$ 176,878,687</u>	<u>286,553,188</u>	<u>463,431,875</u>	<u>(264,982,116)</u>	<u>197,008,025</u>

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Statement of Activities
Year ended June 30, 2015

	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	\$ 95,389,412	12,959,765	-	9,852,965	(72,576,682)	-	(72,576,682)	
Judicial administration	6,705,580	2,686,852	547,183	-	(3,471,545)	-	(3,471,545)	
Public safety	112,771,624	6,569,484	3,136,974	-	(103,065,166)	-	(103,065,166)	
Public works	70,465,462	52,316,287	15,931,255	-	(2,217,920)	-	(2,217,920)	
Health and welfare	39,218,507	19,309	5,602,954	-	(33,596,244)	-	(33,596,244)	
Education	147,634,659	-	13,652,959	-	(133,981,700)	-	(133,981,700)	
Parks, recreation and culture	31,522,216	6,946,220	844,137	-	(23,731,859)	-	(23,731,859)	
Community development	7,371,121	287,964	1,821,643	-	(5,261,514)	-	(5,261,514)	
Interest and other fiscal charges	20,497,054	-	-	-	(20,497,054)	-	(20,497,054)	
Total governmental activities	531,575,635	81,785,881	41,537,105	9,852,965	(398,399,684)	-	(398,399,684)	
Business-type activities:								
Public utility	64,775,097	88,819,826	-	2,434,032	-	26,478,761	26,478,761	
Total business-type activities	64,775,097	88,819,826	-	2,434,032	-	26,478,761	26,478,761	
Total Primary Government	\$ 596,350,732	170,605,707	41,537,105	12,286,997	(398,399,684)	26,478,761	(371,920,923)	
Component units:								
Public Schools	\$ 322,234,339	7,718,990	62,730,008	1,308,589			(250,476,752)	-
Peninsula Airport Commission	15,630,940	8,136,967	-	6,341,393			-	(1,152,580)
Economic and Industrial Development Authorities	19,465,107	23,729,368	-	-			-	4,264,261
Total component units	\$ 357,330,386	39,585,325	62,730,008	7,649,982			(250,476,752)	3,111,681
General revenues:								
City Taxes:								
General property					250,847,834	-	250,847,834	-
E-911 service					722,381	-	722,381	-
Local sales and use					23,390,029	-	23,390,029	-
Consumers' utility					6,312,731	-	6,312,731	-
Consumption					714,814	-	714,814	-
Telecom sales and use					11,679,829	-	11,679,829	-
Business license					16,360,314	-	16,360,314	-
Rental car					1,119,583	-	1,119,583	-
Motor vehicle license					4,009,795	-	4,009,795	-
Bank stock taxes					642,977	-	642,977	-
Recordation and wills					1,340,624	-	1,340,624	-
Tobacco					4,949,954	-	4,949,954	-
Hotel and motel room tax					4,013,332	-	4,013,332	-
Restaurant food tax					24,136,927	-	24,136,927	-
Tourism zone tax					96,601	-	96,601	-
Amusement					872,557	-	872,557	-
Total City Taxes					351,210,282	-	351,210,282	-
Grants and contributions not restricted to specific programs					43,235,474	-	43,235,474	127,307,039
Payment from the City					-	-	-	146,829,384
Investment earnings					2,438,265	167,947	2,606,212	15,432
Miscellaneous					10,542,858	962,131	11,504,989	-
Transfers					9,500,000	(9,500,000)	-	-
Total general revenues and transfers					416,926,879	(8,369,922)	408,556,957	274,151,855
Change in net position					18,527,195	18,108,839	36,636,034	23,675,103
Net position beginning of year - Restated (Note 1)					158,351,492	268,444,349	426,795,841	(288,657,219)
Net position end of year	\$				176,878,687	286,553,188	463,431,875	(264,982,116)

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Balance Sheet
Governmental Funds
June 30, 2015

	General fund	Debt service fund	Bond fund	Nonmajor governmental funds	Total governmental funds
Assets					
Cash and cash equivalents	\$ 81,670,596	116,631	-	40,798,369	122,585,596
Restricted cash	-	32,978	18,919,522	1,739,529	20,692,029
Accounts receivable, net	21,096,032	-	-	3,149,499	24,245,531
Receivable from component unit	10,156,140	-	-	-	10,156,140
Receivable from other funds	1,423,016	-	-	688,143	2,111,159
Receivables from other governments	16,151,782	-	-	5,577,025	21,728,807
Due from Pension Fund	1,265,851	-	-	-	1,265,851
Due from OPEB Fund	2,108,420	-	-	-	2,108,420
Inventory, at cost	1,385,816	-	-	-	1,385,816
Restricted assets:					
Permanently restricted cash	-	1,705,995	-	-	1,705,995
Total assets	<u>\$ 135,257,653</u>	<u>1,855,604</u>	<u>18,919,522</u>	<u>51,952,565</u>	<u>207,985,344</u>
Liabilities					
Accounts payable	\$ 17,176,691	46,131	3,507,575	3,004,687	23,735,084
Accrued liabilities	601,468	70,500	1,992,165	342,733	3,006,866
Deposits	3,896,846	-	-	-	3,896,846
Unearned revenues	152,680	-	-	39,310	191,990
Payable to Newport News Public Schools	-	-	18,988,202	-	18,988,202
Payable to other funds	-	-	-	2,111,159	2,111,159
Total liabilities	<u>21,827,685</u>	<u>116,631</u>	<u>24,487,942</u>	<u>5,497,889</u>	<u>51,930,147</u>
Deferred Inflows of Resources					
Unavailable revenue-property taxes	11,642,857	-	-	-	11,642,857
Property taxes collected in advance	1,329,870	-	-	-	1,329,870
Unavailable revenue-stormwater fees	-	-	-	530,555	530,555
Total deferred inflows of resources	<u>12,972,727</u>	<u>-</u>	<u>-</u>	<u>530,555</u>	<u>13,503,282</u>
Fund Balances					
Nonspendable	11,541,956	-	-	-	11,541,956
Restricted	133,554	1,705,995	15,106,527	13,602,294	30,548,370
Committed	-	32,978	-	32,321,827	32,354,805
Assigned	39,089,271	-	-	-	39,089,271
Unassigned	49,692,460	-	(20,674,947)	-	29,017,513
Total fund balances	<u>100,457,241</u>	<u>1,738,973</u>	<u>(5,568,420)</u>	<u>45,924,121</u>	<u>142,551,915</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 135,257,653</u>	<u>1,855,604</u>	<u>18,919,522</u>	<u>51,952,565</u>	<u>207,985,344</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, 2015

Fund balances – total governmental funds		\$ 142,551,915
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.		3,661,741
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Governmental capital assets	\$ 1,318,107,714	
Less accumulated depreciation	<u>(629,005,858)</u>	
		689,101,856
Other long-term assets are not available to pay for current period expenditures and, therefore, are unavailable in the funds.		12,173,412
Internal service funds are used by management to charge the costs of certain activities to individual funds.	26,179,463	
Adjustment to add back accrued vacation included below	242,591	
Adjustment to add back capital lease included below	<u>307,035</u>	
		26,729,089
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.		12,846,746
Deferred charge of current year employer contributions to the pension plans are reported as deferred outflows of resources in the government-wide financial statements and are not reported in the governmental fund statements.		25,779,051
Unmatured interest payable reported in governmental activities will not be paid with current financial resources and, therefore, are not reported in the funds.		(5,923,090)
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	(373,922,611)	
Literary fund bonds	(5,038,355)	
Capital lease payable	(433,747)	
Land lease payable	(741,819)	
Landfill liability	(4,378,000)	
Accrued vacation	(18,706,630)	
Workers' compensation and other claims	(13,154,483)	
Net pension liability	(246,591,523)	
Net OPEB obligations	(31,577,138)	
Net line of duty obligations	(2,672,719)	
Incurred but not reported claims	<u>(3,536,469)</u>	
		(700,753,494)
Net difference between projected and actual earnings on pension plan investments that result in an investment gain are reported as deferred inflows of resources in the government-wide financial statements but are not reported in the governmental fund statements.		<u>(29,288,539)</u>
Net position of governmental activities		<u>\$ 176,878,687</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, 2015

	General fund	Debt service fund	Bond fund	Nonmajor governmental funds	Total governmental funds
Revenues:					
General property taxes	\$ 248,297,420	-	-	-	248,297,420
Other local taxes	100,362,448	-	-	-	100,362,448
Licenses and permits	3,865,489	-	-	-	3,865,489
Fines and forfeitures	2,247,099	-	-	-	2,247,099
Intergovernmental	43,235,474	13,652,959	-	35,760,267	92,648,700
Charges for services	21,050,357	-	-	52,542,546	73,592,903
Interest and rent	2,182,785	-	-	242,118	2,424,903
Recovered costs	5,945,879	-	-	-	5,945,879
Miscellaneous	4,273,805	48,429	-	25,542	4,347,776
Total revenues	<u>431,460,756</u>	<u>13,701,388</u>	<u>-</u>	<u>88,570,473</u>	<u>533,732,617</u>
Expenditures:					
Current operating:					
General government	83,606,118	-	-	124,085	83,730,203
Judicial administration	6,382,865	-	-	-	6,382,865
Public safety	106,850,859	-	-	4,563,808	111,414,667
Public works	9,547,349	-	-	52,378,923	61,926,272
Health and welfare	33,390,942	-	-	6,853,221	40,244,163
Education	115,300,000	-	21,427,310	4,000,000	140,727,310
Parks, recreation and culture	26,998,842	-	-	984,965	27,983,807
Community development	4,888,611	-	-	2,100,897	6,989,508
Debt service:					
Principal	-	38,687,317	-	-	38,687,317
Interest and other charges	-	19,498,599	-	-	19,498,599
Capital outlay	-	-	29,396,132	18,469,351	47,865,483
Total expenditures	<u>386,965,586</u>	<u>58,185,916</u>	<u>50,823,442</u>	<u>89,475,250</u>	<u>585,450,194</u>
Excess (deficiency) of revenues over (under) expenditures	<u>44,495,170</u>	<u>(44,484,528)</u>	<u>(50,823,442)</u>	<u>(904,777)</u>	<u>(51,717,577)</u>
Other financing sources (uses):					
Transfers in	10,250,000	44,663,882	-	18,398,963	73,312,845
Transfers out	(51,531,134)	-	-	(11,866,711)	(63,397,845)
Total other financing sources (uses), net	<u>(41,281,134)</u>	<u>44,663,882</u>	<u>-</u>	<u>6,532,252</u>	<u>9,915,000</u>
Net changes in fund balances	3,214,036	179,354	(50,823,442)	5,627,475	(41,802,577)
Fund balances at June 30, 2014	97,243,205	1,559,619	45,255,022	40,296,646	184,354,492
Fund balances at June 30, 2015	<u>\$ 100,457,241</u>	<u>1,738,973</u>	<u>(5,568,420)</u>	<u>45,924,121</u>	<u>142,551,915</u>

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, 2015

Net change in fund balances – total governmental funds		\$ (41,802,577)
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	\$ 47,865,483	
Plus: Capital expenditures not included in capital outlays, net of disposals	966,678	
Less: Non-capitalized asset	(13,196,543)	
Depreciation expense	<u>(27,630,418)</u>	
		8,005,200
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.		(1,747,599)
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.		2,550,414
Change in pension asset valuation. These assets are not reported in the governmental funds.		2,316,128
Investment gains are recognized resulting from deferred inflows or outflows in the Statement of Activities, but are not reported as gain or losses in the funds.		(29,288,539)
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.		2,545,164
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	38,687,317	
Premium on issuance of long-term debt	3,743,185	
Amortization of refunding losses	<u>(1,788,453)</u>	
		40,642,049
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	(998,455)	
Capital leases payable	136,954	
Land purchase payable	141,667	
Landfill liability	262,000	
Accrued vacation	941,669	
Net pension obligation	30,009,857	
Net OPEB obligation	(1,654,287)	
Net line of duty obligation	(876,057)	
Workers' compensation and other claims	3,907,963	
Incurred but not reported liabilities	<u>794,783</u>	
		32,666,094
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		219,115
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).		<u>2,421,746</u>
Change in net position of governmental activities		<u>\$ 18,527,195</u>

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA
Statement of Net Position
Proprietary Funds
June 30, 2015

Assets	Major Fund - Public Utility	Internal Service Fund
Current assets:		
Cash and cash equivalents	\$ 44,228,935	4,897,570
Restricted cash	26,355,721	—
Accounts receivable, net	13,723,248	—
Inventory	3,570,167	562,135
Total current assets	<u>87,878,071</u>	<u>5,459,705</u>
Noncurrent assets:		
Land held for resale	7,102,444	—
Wetlands credits	5,530,135	—
Capital assets:		
Nondepreciable capital assets:		
Land	7,976,985	20,257
Construction in progress	26,434,865	15,653
Depreciable capital assets:		
Buildings	152,155,622	3,469,775
Improvements	—	212,993
Water system	412,957,264	—
Machinery and equipment	34,319,010	54,954,585
Total capital assets	633,843,746	58,673,263
Less accumulated depreciation	(251,376,057)	(36,863,802)
Capital assets, net	382,467,689	21,809,461
Net pension asset	278,976	—
Total noncurrent assets	<u>395,379,244</u>	<u>21,809,461</u>
Total assets	<u>483,257,315</u>	<u>27,269,166</u>
Deferred Outflows of Resources		
Deferred pension contributions	2,933,669	—
Deferred VRS contributions	184,676	—
Debt refundings resulting in loss transactions	2,821,173	—
Total deferred outflows	<u>5,939,518</u>	<u>—</u>
Liabilities		
Liabilities:		
Current liabilities:		
Accounts payable	4,006,703	518,554
Accrued liabilities	4,037,964	337,291
Unearned revenues	32,427,958	—
General obligation bonds payable, net	13,567,880	—
Revenue bonds payable, net	990,984	—
Total current liabilities	<u>55,031,489</u>	<u>855,845</u>
Noncurrent liabilities:		
Deposits	3,612,456	—
Lease payable	—	233,858
General obligation bonds payable, net	78,089,937	—
Revenue bonds payable, net	34,393,700	—
Net pension liability	27,105,175	—
Total noncurrent liabilities	<u>143,201,268</u>	<u>233,858</u>
Total liabilities	<u>198,232,757</u>	<u>1,089,703</u>
Deferred Inflows of Resources		
Deferred pension investment gain	4,360,967	—
Deferred VRS investment gain	49,921	—
Total deferred inflows	<u>4,410,888</u>	<u>—</u>
Net Position		
Net position:		
Net investment in capital assets	284,602,082	21,809,461
Unrestricted	1,951,106	4,370,002
Total net position	<u>\$ 286,553,188</u>	<u>26,179,463</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, 2015

	<u>Major Fund - Public Utility</u>	<u>Internal Service Fund</u>
Operating revenues:		
Water sales	\$ 59,976,284	-
Charges for services	24,878,676	12,900,232
Miscellaneous	3,964,866	137,556
Total operating revenues	<u>88,819,826</u>	<u>13,037,788</u>
Operating expenses:		
Personal services	23,029,590	3,076,596
Contractual services	5,268,494	131,233
Internal services	985,063	71,811
Materials and supplies	11,478,951	4,929,931
Depreciation	13,918,277	4,254,544
Other	2,437,231	-
Total operating expenses	<u>57,117,606</u>	<u>12,464,115</u>
Operating income	<u>31,702,220</u>	<u>573,673</u>
Nonoperating revenues (expenses):		
Interest revenue	167,947	13,362
Gain (loss) on disposal of capital assets	(1,908,761)	374,861
Amortization on bond premium	962,131	-
Loss on long-term debt	(379,322)	-
Interest expense	(5,369,408)	-
Total nonoperating revenues (expenses), net	<u>(6,527,413)</u>	<u>388,223</u>
Income before capital contributions and transfers out	<u>25,174,807</u>	<u>961,896</u>
Capital contributions for capital assets	2,434,032	1,976,844
Transfers out	(9,500,000)	(415,000)
Change in net position	18,108,839	2,523,740
Net position at June 30, 2014 - Restated (Note 1)	<u>268,444,349</u>	<u>23,655,723</u>
Net position at June 30, 2015	<u>\$ 286,553,188</u>	<u>26,179,463</u>

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Statement of Cash Flows

Proprietary Funds

Year ended June 30, 2015

	<u>Major Fund - Public Utility</u>	<u>Internal Service Fund</u>
Cash flows from operating activities:		
Receipts from customers	\$ 87,844,466	13,037,788
Payments to suppliers	(16,421,370)	(5,042,905)
Payments to employees	(24,265,175)	(3,076,596)
Other payments	<u>(2,437,231)</u>	<u>—</u>
Net cash provided by operating activities	<u>44,720,690</u>	<u>4,918,287</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(15,545,702)	(5,831,373)
Contributed capital	2,434,032	1,976,844
Proceeds from sale of capital assets	151,340	496,737
Repayment and retirement of long-term debt, net	(13,459,167)	—
Interest paid	<u>(5,332,516)</u>	<u>—</u>
Net cash used in capital and related financing activities	<u>(31,752,013)</u>	<u>(3,357,792)</u>
Cash flows used in noncapital financing activities -		
Transfer to other funds	<u>(9,500,000)</u>	<u>(415,000)</u>
Cash flows provided by investing activities -		
Interest received	<u>167,947</u>	<u>13,362</u>
Increase in cash and restricted cash	3,636,624	1,158,857
Cash, cash equivalents, and restricted cash at beginning of year	<u>66,948,032</u>	<u>3,738,713</u>
Cash, cash equivalents, and restricted cash at end of year	\$ <u><u>70,584,656</u></u>	<u><u>4,897,570</u></u>
Reported as:		
Cash and cash equivalents	\$ 44,228,935	4,897,570
Restricted cash	<u>26,355,721</u>	<u>—</u>
Total cash, cash equivalents and restricted cash	\$ <u><u>70,584,656</u></u>	<u><u>4,897,570</u></u>
Cash flows from operating activities:		
Operating income	\$ 31,702,220	573,673
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation	13,918,277	4,254,544
Change in:		
Accounts receivable	(802,392)	1,638
Inventories	(137,077)	60,245
Accounts payable, accrued liabilities, and leases payable	2,110,407	28,187
Unearned revenues	(172,967)	—
Deposits	253,444	—
Net pension asset	(176,458)	—
Net pension liability	(5,725,890)	—
Deferred outflow of resources	(659,762)	—
Deferred inflow of resources	<u>4,410,888</u>	<u>—</u>
Total adjustments	<u>13,018,470</u>	<u>4,344,614</u>
Net cash provided by operating activities	\$ <u><u>44,720,690</u></u>	<u><u>4,918,287</u></u>

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2015

Assets	Pension, Other Postemployment Benefits, & Line of Duty Act Fund	Agency Funds
Cash and cash equivalents	\$ 19,437,744	5,057,649
Cash and cash equivalents with trustee	33,391,798	—
Investments:		
Corporate and government bonds	121,634,518	—
Domestic stocks	439,797,347	—
Domestic mutual funds	5,807,017	—
International stocks	104,191,575	—
International mutual funds	34,462,264	—
Private equities	16,514,990	—
Real estate and timber	106,755,277	—
Accounts receivable	—	3,395,746
Due from City	—	—
Due from other components	678,335	—
Sales receivable	2,633,846	—
Inventory	—	2,784
Claims Fluctuation Reserve (Anthem)	1,750,072	—
Total assets	\$ 887,054,783	8,456,179
Liabilities		
Accounts payable	\$ 2,200,057	1,389,271
Accrued vacation	42,277	—
Due to other governments	—	4,332,169
Due to other agencies	—	2,734,739
Due to City	3,374,271	—
Purchases payable	3,380,031	—
Total liabilities	8,996,636	8,456,179
Net Position		
Assets held in trust:		
Postemployment healthcare benefits	27,459,005	
Employees' retirement	850,640,235	
Unrestricted	(41,093)	
Total net position	\$ 878,058,147	

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, 2015

	Pension, Other Postemployment Benefits, & Line of Duty Act Fund
Additions:	
Employer Contributions:	
City General Fund	\$ 32,561,764
Waterworks Fund	4,181,669
School Operating Fund	6,754,842
Employee Contributions:	
City General Fund	5,057,988
Waterworks Fund	645,463
School Operating Fund	739,633
Other Contributions:	
Income from Leave Exchange	150,262
Employee Buy-back	144,802
Total contributions	<u>50,486,423</u>
Investment income:	
Net depreciation - bonds	(2,583,916)
Net appreciation - stocks	13,683,051
Interest	3,853,555
Dividends	10,326,005
Real estate operating loss, net	5,998,510
Commission recapture	64,270
Other investment income	4,232
Total investment gain	<u>31,345,707</u>
Less investment expenses:	
Other investment expenses	<u>(4,923,893)</u>
Net investment gain	<u>26,421,814</u>
Total additions	<u>76,908,237</u>
Deductions:	
Benefits paid to participants	78,096,895
Refunds of member contributions	32,016
Administrative expenses	1,107,594
Total deductions	<u>79,236,505</u>
Change in net position	<u>(2,328,268)</u>
Net position held in trust for pension benefits at June 30, 2014	<u>880,386,415</u>
Net position held in trust for pension benefits at June 30, 2015	<u>\$ 878,058,147</u>

See accompanying notes to basic financial statements.

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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

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

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

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

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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

Major discretely presented unit

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

Nonmajor discretely presented units

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

(b) Government-wide and Fund Financial Statements

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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

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

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

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

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

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

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,

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

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monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the accrual criteria are met.

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

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

The City reports the following major governmental funds:

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

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

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

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund types:

The *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.

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

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

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

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

Nonmajor governmental funds:

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

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

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

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The principal operating revenues of the City's proprietary funds are charges to customers for sales and services. The Public Utilities' Enterprise Fund also recognizes certain rental fees as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

(d) Cash and Cash Equivalents and Investments

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

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

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June 30, 2015

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

(e) *Receivables and Payables*

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

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

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

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

Real Estate – Each year as of July 1, the City levies real estate taxes on all real estate within its boundaries, except that exempted by statute. Real estate taxes are levied on the estimated market value of the property and become a lien on real property the first day of the levy year. The City follows the practice of reassessing all property annually. Real estate taxes are collected in semi-annual payments due December 5 and June 5. During the fiscal year, the current year real estate taxes reported as revenue are the levies on assessed valuation on July 1, less an allowance for uncollectible amounts and taxes not collected within 45 days after year-end. The tax rate for 2015 was \$1.22 per \$100 of assessed value.

Personal Property – The City levies personal property taxes on motor vehicles and tangible personal business property. These levies are made each year as of January 1 with payment due the following 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 2015 tax rates per \$100 of assessed value were:

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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, 2015 is composed of the following:

General Fund – Allowance for Uncollectibles

Taxes receivable:

Real Estate	\$	2,372,224
Personal Property		<u>2,497,057</u>
Total Taxes	\$	<u>4,869,281</u>

Non-Major Governmental –

Special Revenue Funds – accounts receivable	\$	1,757,224
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Public Utility Fund - accounts receivable	\$	1,447,833
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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.

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(h) Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Interest of \$36,891 was capitalized during fiscal year 2015.

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, 2015, the City holds capital assets related to school property with a net book value of approximately \$142,466,000.

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

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Notes to Basic Financial Statements

June 30, 2015

(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 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 rates of pay. Upon termination, School Board employees are not paid for accumulated sick leave. Upon retirement, sick leave may be taken in cash at \$30 per day depending upon employment status (maximum payment of \$5,000) or may be used for additional service credit towards their retiree health insurance subsidy.

(k) Long-term Obligations

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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

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

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

(I) Fund Equity/Net Position

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

Under accounting principles generally accepted in the United States of America (GAAP), fund balances are required to be reported according to the following classifications:

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

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

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

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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

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

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

City Council has adopted a minimum fund balance policy which states that the General Fund's unassigned fund balance shall not be less than 7.5% of the actual General Fund revenues. For FY 2015, the General Fund's unassigned fund balance is 11.25% 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, 2015 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	\$ 1,385,816	-	-	-	-
Long-term note receivable	10,156,140	-	-	-	-
General government:					
Administration	-	-	-	3,267,427	-
Self insured activities	-	-	-	22,254,683	-
Projects	-	-	-	6,106,962	-
Judicial administration	-	-	-	204	-
Public safety	-	-	-	5,182,211	-
Public works	-	133,554	-	1,786,222	-
Health and welfare	-	-	-	10,818	-
Parks, recreation, and cultural	-	-	-	448,244	-
Community development	-	-	-	9,170	-
Imprest funds	-	-	-	23,330	-
Unassigned	-	-	-	-	49,692,460
Total General Fund	<u>\$ 11,541,956</u>	<u>133,554</u>	<u>-</u>	<u>39,089,271</u>	<u>49,692,460</u>
Other Funds:					
Debt Service:					
Future Debt Service	\$ -	1,705,995	32,978	-	-
Bond:					
Buildings	-	1,350,672	-	-	-
Community development	-	1,858,719	-	-	-
Environmental	-	239,982	-	-	-
Equipment	-	3,388,346	-	-	-
Parks, recreation, and cultural	-	1,256,947	-	-	-
Streets and bridges	-	2,752,275	-	-	-
Sanitary Sewer/Solid Waste	-	760,297	-	-	-
Stormwater	-	3,499,289	-	-	-
Unassigned	-	-	-	-	(20,674,947)
Nonmajor Governmental:					
Economic Development	-	-	1,275,326	-	-
Law Library	-	25	173,155	-	-
Public Works	-	9,345,556	-	-	-
Criminal Justice Academy	-	-	105,159	-	-
Federal and State Grants	-	4,256,713	194,322	-	-
Community development	-	-	1,389,736	-	-
Equipment	-	-	804,296	-	-
Parks, recreation, and cultural	-	-	432,258	-	-
Buildings	-	-	2,025,507	-	-
Sanitary Sewer	-	-	11,695	-	-
Streets and bridges	-	-	2,487,262	-	-
Stormwater	-	-	185,000	-	-
Future capital projects	-	-	23,238,111	-	-
Total Other Funds	<u>\$ -</u>	<u>30,414,816</u>	<u>32,354,805</u>	<u>-</u>	<u>(20,674,947)</u>
Total fund balance	<u>\$ 11,541,956</u>	<u>30,548,370</u>	<u>32,354,805</u>	<u>39,089,271</u>	<u>29,017,513</u>

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

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

	Governmental Activities
General activities:	
Public works	\$ 133,554
Other activities:	
Debt Service	1,705,995
Law Library	25
Grants	2,071,824
Capital Projects	2,184,889
Stormwater, Solid Waste, Wastewater	9,345,556
Total restricted net position	<u>\$ 15,441,843</u>

(m) Encumbrances

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

(n) Deferred Outflows and Inflows of Resources

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

CITY OF NEWPORT NEWS, VIRGINIA

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debt, and employer contributions to the pension plans made after the measurement date. The deferred outflow is being amortized over the remaining life of the refunded debt.

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

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

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

Effective July 1, 2014, the City adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (Statement No. 68) and Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* (Statement No. 71). This implementation required the City to recognize a net pension liability for each qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan. Changes in the net pension liability during the period are recorded as pension expense or as deferred inflows or deferred outflows of resources, depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs, and along with differences between expected or actual experience, are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

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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, 2014 has been adjusted accordingly:

	Governmental Activities	Business-type Activities	Total Primary Government	Component Unit - School Board
Net Position, beginning of the year as previously reported	\$ 185,817,034	298,714,313	484,531,347	72,539,045
Net Pension Asset	1,345,613	102,518	1,448,131	511,000
Change in reported value of NPL	(50,248,380)	(32,831,065)	(83,079,445)	(386,459,035)
Deferred Outflows:				
2014 Pension Contributions	20,409,635	2,243,413	22,653,048	6,711,771
2014 VRS Contributions	2,824,252	215,170	3,039,422	18,040,000
Restatement of Line of Duty	(1,796,662)	-	(1,796,662)	-
Balance, as restated, June 30, 2014	<u>\$ 158,351,492</u>	<u>268,444,349</u>	<u>426,795,841</u>	<u>(288,657,219)</u>

Additionally, this implementation of GASB 68 and GASB 71 required the City to restate total long-term liabilities as previously reported at June 30, 2014. The restatement of prior long-term liabilities for fiscal year ending June 30, 2014 increased long term liabilities by the change in the net pension liability. As a result, long-term liabilities as of June 30, 2014 have been adjusted accordingly:

	Governmental Activities	Business-type Activities	Total Primary Government	Component Unit - School Board
Total long-term liabilities, beginning of the year as previously reported	\$ 725,022,618	144,822,813	869,845,431	42,937,284
Change in reported value of NPL	50,248,380	32,831,065	83,079,445	386,459,035
Restatement of Line of Duty	1,796,662	-	1,796,662	-
Balance, as restated, June 30, 2014 (note 7)	<u>\$ 777,067,660</u>	<u>177,653,878</u>	<u>954,721,538</u>	<u>429,396,319</u>

During fiscal year 2015, it was determined that the Line of Duty long term liability should have been reported in the Statement of Net Position in the previous year. As a result, long term liabilities and beginning net position as of July 1, 2014 have been adjusted according to the schedules above.

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(2) Deposits and Investments

Deposits

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

To increase returns and minimize fees, the City follows the practice of pooling cash and investments of all funds held with the City Treasurer except for certain restricted funds requiring separate tracking or held by outside custodians. Cash and investments as of June 30, 2015 are classified in the accompanying financial statements, except for Pension and OPEB Funds' as follows:

	<u>Carrying amount</u>
Cash and deposits:	
Cash on hand	\$ 128,276
Deposits with banks	<u>47,168,586</u>
Total cash and deposits	47,296,862
Investments:	
Local Government Investment Pool (LGIP)	176,461,281
Deposits with banks – Money market accounts	1,158,096
Deposits with banks – Repurchase agreements	13,584,426
Commonwealth cash reserve	3,455,760
Virginia State Non-Arbitrage Pool (VA SNAP)	45,012,949
Common Stock – IDA	334
Debt Service – QZAB Sinking Fund	1,705,995
Schools' escrow funds	250,000
IDA escrow funds	<u>175,084</u>
Total deposits and investments	<u>\$ 289,100,787</u>

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Cash and investments as of June 30, 2015 are classified in the accompanying financial statements, except for Pension and OPEB Funds, as follows:

	<u>June 30, 2015</u>
Statements of net position:	
Primary Government:	
Cash and cash equivalents	\$ 171,712,101
Restricted cash	47,047,750
Permanently restricted cash	1,705,995
Component Units:	
Cash and cash equivalents	49,279,482
Restricted cash	14,253,811
Fiduciary Funds:	
Cash and cash equivalents – Line of Duty Act Fund	43,999
Cash and cash equivalents – Agency Funds	<u>5,057,649</u>
Total cash and investments	<u><u>\$ 289,100,787</u></u>

Investment Policy

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

The City 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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

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, 2015, the carrying value and weighted average maturity of the City's investments are listed below.

Custodial Credit Risk – Deposits: The City's deposits at June 30, 2015 were fully insured or collateralized by securities held in the name of the City by the City's custodial banks.

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

Credit Risk of Debt Securities of Primary Government: The City's rated debt investments as of June 30, 2015, were rated by Standard & Poors and Moody. The ratings are presented below using the Standard & Poors rating scale. The School Board and E/IDA, component units, are pooled with the City and not separately identified.

<u>Assets held by the Treasurer</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity (Years)</u>
Local Government Investment Pool	\$ 176,461,281	AAAm	0.14
Commonwealth Cash Reserve (AIM) – Underlying:			
U.S. Agencies	3,159,059	AA+	1.86
U.S. Agencies	100,284	AA	1.00
U.S. Agencies	100,009	AA-	0.97
U.S. Agencies	64,947	AAA	2.72
U.S. Agencies	31,461	AAAm	0.00
SNAP	<u>45,012,949</u>	AAAm	0.11
Total Investments	<u>\$ 224,929,990</u>		

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

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	\$ 1,114,210
Deposits with banks – repurchase agreements	18,279,535
Pension trust fund money markets	<u>33,391,798</u>
Total cash and deposits	\$ 52,785,543
Investments:	
Common & international stocks	\$600,773,193
Corporate and government bonds	121,634,518
Pension fund real estate funds	<u>106,755,277</u>
Total investments	\$829,162,988
Total deposits and investments	<u><u>\$881,948,531</u></u>

The Pension and OPEB funds' cash and investment as of June 30, 2015 are classified in the accompanying financial statements as follows:

	<u>June 30, 2015</u>
Cash and cash equivalents	\$ 19,393,745
Cash and cash equivalents with trustee	33,391,798
Investments:	
Corporate and government bonds	121,634,518
Common stock	439,797,347
International stock	109,998,592
International emerging markets	34,462,264
Private equity	16,514,990
Real estate	<u>106,755,277</u>
Total deposits and investments	<u><u>\$881,948,531</u></u>

Investment Policy of the Pension Fund

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

CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2015

Credit Risk of Pension Funds

The credit risk profile for the Pension Funds' securities by investment type as of June 30, 2015 is as follows:

<u>Investment Types</u>	<u>S & P's Ratings as of June 30, 2015</u>					
	<u>TOTAL</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>Not Rated</u>
Asset-backed	\$ 8,165,972	\$ 5,290,750	\$ -	\$ -	\$ -	\$ 2,875,222
Corporate Bonds	59,593,103	-	11,712,426	42,336,338	5,544,339	-
Foreign Currency	(2,075,266)	-	-	-	-	(2,075,266)
Lmt'd Partnership Units	16,868,627	-	-	-	-	16,868,627
Mortgage-backed	25,608,134	6,387,854	-	-	-	19,220,280
Mutual Funds	230,368,330	-	-	-	-	230,368,330
Real Estate	19,163,610	-	-	-	-	19,163,610
Short-term	35,465,611	-	-	-	-	35,465,611
U.S. Agencies	17,278,654	-	17,278,654	-	-	-
U.S. Treasury	10,988,655	-	-	-	-	10,988,655
Non-fixed Assets	419,787,491	-	-	-	-	419,787,491
Total	<u>\$ 841,212,921</u>	<u>\$ 11,678,604</u>	<u>\$ 28,991,080</u>	<u>\$ 42,336,338</u>	<u>\$ 5,544,339</u>	<u>\$ 752,662,560</u>

Concentration of Credit Risk – Pension Fund

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

Custodial Risk – Pension and OPEB Funds

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

Foreign Currency Risk – Pension Fund

The 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 Pension Fund's investment policy does not address investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investment policy defines the investment objectives for both the passive and actively managed segments of the fixed income portfolio. The objective of the passive segment is to replicate the return of the Barclays Aggregate Bond Index thus providing broad diversification that would be impractical to achieve in an actively managed portfolio. The objective of the actively managed fixed income

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

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portfolio is to outperform the Barclays Aggregate Bond Index over a moving 3-5 year range, with the exception of long duration fixed income, which has an objective of outperforming the Barclays Capital Long Government/Credit Index over a moving 3-5 year range. The fair value of the Pension Fund's fixed income portfolio consisted of the following investment and maturities as of June 30, 2015:

Investment Type	Fair Value	<5 years	5-10	>20 years
US Government	\$ 29,022,916	\$ 24,245,939	\$ 4,776,976	\$ -
Corporate Bonds	58,715,055	58,081,684	402,091	231,280
MTGE	34,583,622	33,705,096	593,012	285,515
Total	<u>\$ 122,321,593</u>	<u>\$ 116,032,719</u>	<u>\$ 5,772,079</u>	<u>\$ 516,795</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	\$ 8,296,808	-
Personal Property	6,163,998	-
Total taxes receivable, net	14,460,806	-
Accounts receivable	9,784,725	13,723,248
Total receivables, net	<u>\$ 24,245,531</u>	<u>13,723,248</u>

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

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Notes to Basic Financial Statements

June 30, 2015

	<u>General</u>	<u>Public Utility</u>	<u>Fiduciary Funds</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:					
Taxes	\$ 19,330,087	-	-	-	19,330,087
Accounts	6,635,226	15,171,081	3,395,746	4,906,723	30,108,776
Intergovernmental:					
Federal	2,731,384	-	-	1,444,667	4,176,051
State	13,420,398	-	-	2,554,646	15,975,044
Local	-	-	-	1,577,712	1,577,712
Gross receivables	42,117,095	15,171,081	3,395,746	10,483,748	71,167,670
Less allowance for doubtful accounts	(4,869,281)	(1,447,833)	-	(1,757,224)	(8,074,338)
Net total receivables	\$ 37,247,814	13,723,248	3,395,746	8,726,524	63,093,332

In the governmental fund, unavailable revenues consist of revenues that are measurable but not available for use during the current period. Property taxes receivable at June 30 but not collected within 45 days after that date are reported as deferred inflows of resources in the financial statements. At the end of the current fiscal year, unavailable revenue of \$0.5 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.

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CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2015

(4) Capital Assets, Net

Capital asset activity for the year ended June 30, 2015 was as follows:

Primary Government

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 88,794,145	44,670	15,000	88,823,815
Construction in progress	75,563,889	36,840,370	40,459,810	71,944,449
Total capital assets, not being depreciated	<u>164,358,034</u>	<u>36,885,040</u>	<u>40,474,810</u>	<u>160,768,264</u>
Capital assets, being depreciated:				
Buildings	348,673,753	8,498,893	3,617,272	353,555,374
Improvements	188,008,758	14,809,141	-	202,817,899
Machinery and equipment	144,147,235	11,121,469	3,727,394	151,541,310
Infrastructure	496,886,168	11,211,962	-	508,098,130
Total capital assets being depreciated	<u>1,177,715,914</u>	<u>45,641,465</u>	<u>7,344,666</u>	<u>1,216,012,713</u>
Less accumulated depreciation for:				
Buildings	119,232,081	6,587,935	1,597,632	124,222,384
Improvements	92,033,552	6,528,919	-	98,562,471
Machinery and equipment	98,731,945	9,909,591	3,292,855	105,348,681
Infrastructure	328,877,607	8,858,517	-	337,736,124
Total accumulated depreciation	<u>638,875,185</u>	<u>31,884,962</u>	<u>4,890,487</u>	<u>665,869,660</u>
Total capital assets being depreciated, net	<u>538,840,729</u>	<u>13,756,503</u>	<u>2,454,179</u>	<u>550,143,053</u>
Capital assets, net	<u>\$ 703,198,763</u>	<u>50,641,543</u>	<u>42,928,989</u>	<u>710,911,317</u>

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

General Government	\$ 1,786,539
Judicial Administration	511,750
Public Safety	4,656,612
Public Works	10,373,197
Health and Welfare	166,215
Education	5,159,750
Parks, Recreation and Culture	4,367,177
Community Development	588,614
Non-departmental	20,564
Internal Service Fund	4,254,544
	<u>\$ 31,884,962</u>

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

Construction in progress for the City at June 30, 2015 is composed of the following project authorizations and contract commitments (in millions):

	Project Authorization	Expended as of June 30, 2015	Balance of Authorization	Contract Commitments (Encumbrances)	Future Funding Requirements
General Government	\$ 8.3	3.0	5.3	0.9	10.1
Health & Welfare	2.2	0.1	2.1	0.8	-
Public Safety	20.9	7.9	13.0	5.3	1.8
Public Works	69.9	22.9	47.0	14.4	15.7
Parks and Recreation	12.7	7.1	5.6	1.7	5.6
Economic Development and Urban Renewal	15.2	6.1	9.1	3.2	1.1
Public Schools	35.8	6.4	29.4	19.0	12.1
Totals	<u>\$ 165.0</u>	<u>53.5</u>	<u>111.5</u>	<u>45.3</u>	<u>46.4</u>

Business-type Activities:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Public Utility:				
Capital assets, not being depreciated:				
Land	\$ 7,302,367	674,618	-	7,976,985
Construction in progress	18,835,117	9,008,133	1,408,385	26,434,865
Total capital assets, not being depreciated	<u>26,137,484</u>	<u>9,682,751</u>	<u>1,408,385</u>	<u>34,411,850</u>
Capital assets, being depreciated:				
Buildings	152,185,865	-	30,243	152,155,622
Improvements	408,192,327	5,685,333	920,396	412,957,264
Machinery and equipment	34,881,764	926,143	1,488,897	34,319,010
Total capital assets being depreciated	<u>595,259,956</u>	<u>6,611,476</u>	<u>2,439,536</u>	<u>599,431,896</u>
Less accumulated depreciation for:				
Buildings	49,600,706	3,648,667	26,599	53,222,774
Improvements	165,071,216	7,517,755	636,235	171,952,736
Machinery and equipment	24,920,795	2,751,855	1,472,103	26,200,547
Total accumulated depreciation	<u>239,592,717</u>	<u>13,918,277</u>	<u>2,134,937</u>	<u>251,376,057</u>
Total capital assets being depreciated, net	<u>355,667,239</u>	<u>(7,306,801)</u>	<u>304,599</u>	<u>348,055,839</u>
Capital assets, net	<u>\$ 381,804,723</u>	<u>2,375,950</u>	<u>1,712,984</u>	<u>382,467,689</u>

CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2015

Discretely Presented Component Units

	Balance			Adjustment Assets Held Tenancy	Balance
	July 1, 2014	Increases	Decreases	In-Common	June 30, 2015
Public Schools:					
Capital assets, not being depreciated:					
Land	\$ 2,505,084	-	-	-	2,505,084
Construction in progress	1,427,742	4,147,772	2,355,930	-	3,219,584
Total capital assets, not being depreciated	3,932,826	4,147,772	2,355,930	-	5,724,668
Capital assets, being depreciated:					
Buildings	46,849,002	159,039	-	3,617,272	50,625,313
Improvements	52,044,860	1,147,498	-	-	53,192,358
Machinery and equipment	65,224,874	4,050,888	4,672,167	-	64,603,595
Total capital assets being depreciated	164,118,736	5,357,425	4,672,167	3,617,272	168,421,266
Less accumulated depreciation for:					
Buildings	28,898,120	771,493	-	1,537,344	31,206,957
Improvements	20,716,727	1,684,232	-	-	22,400,959
Machinery and equipment	45,483,098	4,329,213	4,204,590	-	45,607,721
Total accumulated depreciation	95,097,945	6,784,938	4,204,590	1,537,344	99,215,637
Total capital assets being depreciated, net	69,020,791	(1,427,513)	467,577	2,079,928	69,205,629
Capital assets, net	\$ 72,953,617	2,720,259	2,823,507	2,079,928	74,930,297

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

Depreciation expense of \$6,784,938 was charged to the Public School's governmental functions.

Construction in progress for the Public Schools at June 30, 2015 is composed of project authorizations of \$21,927,447, amounts expended through June 30, 2015 of \$2,539,490, and a remaining balance of \$19,387,957.

CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2015

	<u>Balance</u> <u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2015</u>
E/IDA:				
Capital assets, not being depreciated -				
Construction in progress	\$ 5,390,234	13,778,695	12,816,459	6,352,470
Capital assets, being depreciated:				
Infrastructure	2,543,500	-	-	2,543,500
Buildings	183,720,830	12,174,760	-	195,895,590
Improvements	14,274,715	52,925	-	14,327,640
Machinery and equipment	84,674	-	-	84,674
Total capital assets being depreciated	200,623,719	12,227,685	-	212,851,404
Less accumulated depreciation for:				
Infrastructure	815,606	97,768	-	913,374
Buildings	42,152,355	4,575,544	-	46,727,899
Improvements	7,073,655	351,424	-	7,425,079
Machinery and equipment	84,674	-	-	84,674
Total accumulated depreciation	50,126,290	5,024,736	-	55,151,026
Total capital assets being depreciated, net	150,497,429	7,202,949	-	157,700,378
Capital assets, net	\$ 155,887,663	20,981,644	12,816,459	164,052,848

	<u>Balance</u> <u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2015</u>
PAC:				
Capital assets, not being depreciated -				
Land	\$ 6,604,658	-	-	6,604,658
Construction in progress	3,974,784	4,637,352	8,272,846	339,290
Total capital assets not being depreciated	10,579,442	4,637,352	8,272,846	6,943,948
Capital assets, being depreciated:				
Airfield	85,681,494	4,661,953	-	90,343,447
Terminal	72,104,714	1,435,894	-	73,540,608
Trailer park and rental units	1,852,612	-	-	1,852,612
Other	4,245,827	2,174,999	-	6,420,826
Total capital assets being depreciated	163,884,647	8,272,846	-	172,157,493
Less accumulated depreciation for:				
Airfield	39,019,493	3,797,702	-	42,817,195
Terminal	27,661,783	2,905,591	-	30,567,374
Trailer park and rental units	1,852,612	-	-	1,852,612
Other	1,960,093	458,703	-	2,418,796
Total accumulated depreciation	70,493,981	7,161,996	-	77,655,977
Total capital assets being depreciated, net	93,390,666	1,110,850	-	94,501,516
Capital assets, net	\$ 103,970,108	5,748,202	8,272,846	101,445,464

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

(5) Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2015, is as follows:

Receivables/payables between other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Gov. Fund: Wastewater	\$ 223,635
General Fund	Nonmajor Gov. Fund: Comp. Services Act	520,908
General Fund	Nonmajor Gov. Fund: CDGB	6,245
General Fund	Nonmajor Gov. Fund: Animal Shelter	208,449
General Fund	Nonmajor Gov. Fund: Police Grants	209,788
General Fund	Nonmajor Gov. Fund: Safer Grant	66,126
General Fund	Nonmajor Gov. Fund: Comm. Atty Grants	24,190
General Fund	Nonmajor Gov. Fund: Misc. Grants	163,675
Nonmajor Gov. Fund: Gen. Cap. Imp. Fund	Nonmajor Gov. Fund: Capital Project Grants	688,143

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

Due to/from external parties:

<u>Due from external party</u>	<u>Due to external party</u>	<u>Amount</u>
General Fund	Pension Fund	\$1,265,851
General Fund	OPEB Fund	2,108,420

Receivables/payables between Primary Government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
City	Industrial Development Authority	\$10,156,140
Newport News Public Schools	City	18,988,202

The IDA Payable of \$10,156,140 represents the outstanding balance of the City's financing of the Applied Research Center (ARC). The repayment includes interest at 2.79%. The IDA's annual payments to the City represent net leasing revenues from the ARC.

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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

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

	Transfers to:				
	General Fund	Debt Service	Nonmajor Governmental Capital Projects	Nonmajor Governmental Special Revenue	Total
Transfers from:					
General Fund	\$ -	33,547,171	16,129,325	1,854,638	51,531,134
Nonmajor Gov. -					
Special Revenue	750,000	11,116,711	-	-	11,866,711
Internal Service Fund	-		415,000		415,000
Public Utility	9,500,000	-	-	-	9,500,000
	<u>\$ 10,250,000</u>	<u>44,663,882</u>	<u>16,544,325</u>	<u>1,854,638</u>	<u>73,312,845</u>

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

(6) Lease Agreements

(a) Land Lease Payments – Primary Government

Land: The City has a lease agreement with Mariner’s Museum through 2018 to finance the acquisition of a parcel of land. The lease is accounted for as a capital lease and recorded at the present value of the future minimum lease payments at the date of inception. The cost of the land is \$3,150,000 and is included in capital assets. The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2015 were as follows:

Years ending June 30:	
2016	\$ 270,811
2017	270,811
2018	270,811
Total	<u>\$ 812,433</u>
Less Interest	<u>70,614</u>
Present Value	<u>\$ 741,819</u>

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

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

The School Board has two lease agreements at June 30, 2015 for financing the acquisition of property and equipment.

The net book value of assets acquired through the two capital leases as of June 30, 2015 is as follows:

Machinery and equipment	\$ 1,736,244
Less accumulated depreciation	<u>(736,321)</u>
Assets acquired through capital leases, net	<u><u>\$ 999,923</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2015, were as follows:

Years ending June 30:

2016	\$ 387,179
2017	387,179
2018	189,131
2019	149,521
2020	<u>37,380</u>
Total minimum lease payments	\$ 1,150,390
Less amounts representing interest	<u>(84,671)</u>
Present value of minimum capital lease payments	<u><u>\$ 1,065,719</u></u>

(c) Operating Lease Payments – Component Units

The School Board had three ongoing leased buildings in 2015. Part of the leased space expires on June 30, 2028 and the other leased space in that same building expires on June 30, 2030. One other lease expires on December 31, 2015 but, in September 2015, the School Board exercised its option to renew for one additional year. The School Board also leased space for high school graduation ceremonies on a year-to-year basis. Total costs for such leases were approximately \$742,000 for the year ended June 30, 2015.

The E/IDA leases land and property in Newport News. Original lease terms range from one to twenty years. In July of 2015, the Authorities exercised their purchase option under the Apprentice School Parking Garage lease reducing their annual rent expense and long term lease obligations.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

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

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

	<u>Schools</u>	<u>E/IDA</u>	<u>PAC</u>
Years ending June 30:			
2016	\$ 674,015	1,289,455	12,648
2017	708,665	1,031,510	12,648
2018	668,776	1,009,833	8,432
2019	673,129	1,011,817	-
2020	677,568	1,013,855	-
2021-2025	3,629,696	4,691,497	-
2026-2030	2,851,337	985,834	-
	<u>\$ 9,883,186</u>	<u>11,033,801</u>	<u>33,728</u>

(d) Operating Lease Revenues – Component Units

The E/IDA have developed several properties where they continue to own the land and buildings. These properties were developed with the purpose of entering into lease agreements with private companies. These lease agreements, whose terms range from 1 to 25 years, are made to increase the economic activity of the City.

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

Land	\$ 6,138,367
Buildings	121,547,078
Improvements & Parking Lots	3,813,459
Less accumulated depreciation	<u>(34,929,739)</u>
Net investment in property held for lease	<u>\$ 96,569,165</u>

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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

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

Minimum future rental income on operating leases as of June 30, 2015 is as follows:

	<u>E/IDA</u>	<u>PAC</u>
Year ending June 30:		
2016	\$ 9,530,930	937,108
2017	8,238,588	895,089
2018	5,268,764	741,218
2019	2,649,108	746,185
2020	1,735,316	635,600
2021-2025	7,532,118	3,546,753
2026-2030	5,316,093	—
2031	88,620	—
Total	<u>\$ 40,359,537</u>	<u>7,501,953</u>

Rental income on operating leases for year ended 2015 was \$9,891,196 and \$873,651 for E/IDA and PAC, respectively.

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

The E/IDA is lessor in one direct financing lease on a property within the City. The lease agreement, whose remaining term is one year, is an agreement with a private company, the objective of which is to increase the economic activity in the City.

The following schedule lists the composition of the net investment in the direct financing leases as of June 30, 2015:

Minimum lease payments to be received	\$ 81,156
Less unearned income	<u>(169)</u>
Net investment in direct financing leases	<u>\$ 80,987</u>

Minimum future rental income on this direct financing lease to maturity in 2016 is \$81,156.

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CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2015

(7) Long-Term Liabilities

- (a) A summary of changes in long-term liabilities for governmental activities for the year ended June 30, 2015 is as follows:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due within one year
Bonds payable:					
General obligation bonds	\$ 383,781,704	—	(38,267,550)	345,514,154	37,701,270
Deferred amounts:					
Add bonds premiums	32,151,642	—	(3,743,185)	28,408,457	3,963,923
Total bonds payable	415,933,346	—	(42,010,735)	373,922,611	41,665,193
Literary loan bonds	5,458,122	—	(419,767)	5,038,355	419,767
Capital leases payable	570,701	—	(136,954)	433,747	107,173
Land lease payable	960,934	—	(219,115)	741,819	232,630
Land purchase payable	141,667	—	(141,667)	—	—
Landfill liability	4,640,000	—	(262,000)	4,378,000	274,000
Accrued vacation	19,648,299	13,681,531	(14,623,200)	18,706,630	13,918,741
Net line of duty obligation*	1,796,662	1,113,914	(237,857)	2,672,719	—
Net pension liability*	276,601,380	19,033,075	(49,042,932)	246,591,523	—
Net OPEB obligation	29,922,851	11,894,287	(10,240,000)	31,577,138	—
Workers' comp. and other claims	17,062,446	(375,591)	(3,532,372)	13,154,483	3,508,011
Incurring but not reported medical claims	4,331,252	35,558,716	(36,353,499)	3,536,469	3,536,469
Total long-term liabilities*	\$ 777,067,660	80,905,932	(157,220,098)	700,753,494	63,661,984

*Balances were restated to reflect implementation of GASB 68, GASB 71 and line of duty obligation (Note 1).

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

General obligation bonds of \$63.3 million are authorized but unissued.

The land purchase payable consists of one property purchased on installment, which is being paid for with available cash. No debt was issued to finance the purchase. The last installment was made in July 2014.

At June 30, 2015, approximately \$9.1 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 \$4.4 million liability at June 30, 2015 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 2015. Actual costs may be higher due to inflation, technology changes or regulation changes.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

Outstanding general obligation bonds at June 30, 2015 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, 2015
VRA 94A	06/02/94	01/01/16	3.60%	\$ 303,142
VMPL 95C	09/28/95	12/01/16	4.25%	162,564
VPSA 95C	12/01/95	07/15/15	5.20%	369,332
VRA 96C	01/24/96	10/01/16	3.65%	306,388
VRA 97A	01/30/97	10/01/17	3.70%	483,248
VRA 98A	01/22/98	12/01/17	3.70%	389,017
VRA 99A	03/09/99	12/01/19	3.80%	801,373
VRA 00A	03/01/00	03/01/21	3.50%	1,047,576
VPSA 00B	11/16/00	07/15/21	5.15%	2,060,774
VRA 01A	04/24/01	05/01/22	4.10%	928,069
VRA 02A	05/15/02	01/01/23	3.75%	1,341,602
Series 02B	09/26/02	07/01/16	3.40%	7,790,000
VRA 03A	06/24/03	06/01/24	3.50%	1,669,036
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%	1,778,328
VRA 05A	08/24/05	09/01/26	3.50%	2,223,119
Series 06A	02/16/06	02/01/26	4.00%	1,715,000
Series 06B	02/16/06	02/01/19	4.00%	13,260,000
VRA 06A	10/20/06	11/01/27	3.10%	1,946,160
Series 07A	04/05/07	03/01/27	4.10%	4,000,000
Series 07B	04/05/07	07/01/22	5.00%	20,215,000
VRA 07A	09/11/07	09/01/28	3.00%	2,339,493
Series 08A	04/09/08	07/28/28	4.00%	5,565,000
VRA 08	12/12/08	09/01/29	3.50%	2,420,146
Series 09A	05/06/09	06/30/30	3.44%	23,685,000
Series 09B	05/06/09	06/30/20	2.23%	6,425,000
VRA 09	12/16/09	09/01/30	3.35%	4,152,293
Series 11A	07/28/11	07/01/31	3.31%	29,400,000
Series 11B	07/28/11	07/01/19	1.97%	9,585,000
Series 12A	03/21/12	07/15/24	1.93%	42,025,000
Series 12B	03/21/12	07/15/19	1.41%	15,645,000
Series 12C	09/27/12	09/01/32	2.58%	38,400,000
Series 12D	09/27/12	09/01/21	1.77%	3,525,000
Series 14A	05/22/14	07/15/34	3.05%	45,000,000
Series 14A-Ref	05/22/14	07/15/27	2.43%	45,920,000
Series 14B	05/22/14	01/15/25	3.08%	6,195,000
Totals				<u>\$ 345,514,154</u>

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

Outstanding literary loans at June 30, 2015, 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, 2015
Warwick High	09/01/99	09/01/19	2%	\$ 46,000
Menchville High-2	10/01/00	10/01/20	2%	75,000
Denbigh High-2	08/01/01	08/01/21	2%	85,860
Gildersleeve Middle-2	08/15/01	08/15/21	2%	43,750
Dozier Middle	08/15/01	08/15/21	2%	43,750
Reservoir Middle	05/01/02	05/01/22	2%	43,750
Hines Middle	05/01/02	05/01/22	2%	43,750
Huntington Middle-2	09/01/02	09/01/22	2%	54,268
General Stanford	06/30/07	07/15/27	2%	4,602,227
Totals				\$ 5,038,355

The following table summarizes future debt service requirements as of June 30, 2015:

Fiscal year ending June 30:	General Obligation Bonds		Literary Loans	
	Principal	Interest	Principal	Interest
2016	\$ 37,701,270	13,689,025	\$ 419,767	100,767
2017	37,336,003	12,220,729	419,767	92,372
2018	30,941,912	10,866,492	419,767	83,977
2019	28,435,325	9,650,306	419,767	75,580
2020	24,909,974	8,586,300	419,767	67,186
2021 - 2025	107,294,426	28,103,874	1,877,473	215,710
2026 - 2030	56,074,861	9,829,886	1,062,047	42,482
2031 - 2035	22,820,383	1,908,979	-	-
Total future debt service	\$ 345,514,154	94,855,591	\$ 5,038,355	678,074

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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

Business-type Activities

A summary of changes in long-term liabilities for capital-related, business-type activities for the year ended June 30, 2015 is as follows:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due within one year
Bonds payable:					
General obligation bonds \$	98,560,000	—	12,545,000	86,015,000	12,615,000
Revenue bonds	35,931,667	—	914,167	35,017,500	963,750
Deferred amounts:					
Add bond premiums	6,972,134	—	962,133	6,010,001	980,114
Total bonds payable \$	<u>141,463,801</u>	<u>—</u>	<u>14,421,300</u>	<u>127,042,501</u>	<u>14,558,864</u>
Net Pension liability*	32,831,065	878,490	6,604,380	27,105,175	—
Add deposits	3,359,012	1,455,307	1,201,863	3,612,456	—
Total long-term liabilities* \$	<u>177,653,878</u>	<u>2,333,797</u>	<u>22,227,543</u>	<u>157,760,132</u>	<u>14,558,864</u>

*Balances were restated to reflect implementation of GASB 68 and GASB 71.

Outstanding public utility bonds at June 30, 2015 are comprised of the following issues:

Public Utility Bond Series	Issue Date	Final Maturity Date	Interest Rate (At Issue)	Balance June 30, 2015
2002B	09/26/02	07/01/16	3.8%	1,350,000
2006A	02/15/06	02/01/26	4.3%	700,000
2006B	02/15/06	02/01/19	4.3%	7,555,000
2007B	04/05/07	07/01/22	5.1%	17,950,000
2007A-IRB	06/30/07	06/01/37	4.6%	35,017,500
2008B	04/09/08	06/30/28	4.5%	3,375,000
2009B	05/06/09	09/01/29	4.3%	11,645,000
2011B	07/28/11	07/01/19	1.9%	485,000
2012A	03/21/12	07/15/24	1.9%	8,750,000
2012B	03/21/12	07/15/19	1.4%	16,870,000
2014A	05/22/14	07/15/27	2.5%	17,335,000
Totals				\$ <u>121,032,500</u>

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

The following table summarizes future debt service requirements of Business-type Activities as of June 30, 2015:

Fiscal year ending June 30:	Business-type Activities	
	Principal	Interest
2016	\$ 13,578,750	4,958,500
2017	13,983,333	4,504,567
2018	11,463,333	4,062,495
2019	11,839,583	3,595,100
2020	10,169,167	3,119,447
2021-2025	30,475,000	10,419,044
2026-2030	14,502,084	5,225,464
2031-2035	10,325,000	2,696,938
2036-2037	4,696,250	364,750
Totals	\$ 121,032,500	38,946,305

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, 2015 is as follows:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due within one year
Compensated absences	\$ 4,270,672	1,907,487	1,714,934	4,463,225	669,484
Workers' compensation claims	2,901,090	3,526,298	1,670,086	4,757,302	951,460
Capital leases payable	704,652	663,485	302,418	1,065,719	346,321
Capital facilities notes payable	3,585,711	-	3,585,711	-	-
Other postemployment benefits	28,683,159	7,020,629	7,407,843	28,295,945	-
Incurred but not reported medical claims	2,792,000	25,019,164	25,150,164	2,661,000	2,661,000
VRS teacher pool pension	290,179,000	18,861,000	58,952,000	250,088,000	-
City of Newport News pension	96,280,035	3,599,669	18,787,343	81,092,361	-
Totals	\$ 429,396,319	60,597,732	117,570,499	372,423,552	4,628,265

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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

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

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

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

E/IDA and PAC – Component Units

Industrial Revenue Bonds and Notes Payable (the Bonds and Notes) have been issued in the name of E/IDA to finance construction projects. The Bonds and Notes, both as to principal and interest, are payable generally from lease proceeds. In the event of default by the lessee, the holders of the Bonds and Notes have no recourse against the E/IDA, but must look to the property and lessee for indemnity. In 2015, approximately \$16.7 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, 2015

The E/IDA bonds and Notes at June 30, 2015 are comprised of the following:

Bonds and notes payable	Issue date	Maturity date	Effective interest rates		Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Amount due within one year
UPS, 04	06/04/04	07/01/15	5.58%	m	\$ 944,230	\$ -	\$ 944,230	\$ -	\$ -
Sears	03/01/98	10/01/18	5.40%	mm	4,338,281	-	932,270	3,406,011	984,177
VSS	03/01/98	10/01/18	5.40%	mm	3,937,840	-	846,223	3,091,617	893,341
Downtown Eng	04/05/00	07/01/31	7.64%		16,840,000	-	1,060,000	15,780,000	1,060,000
Merchant's Walk	12/21/10	12/01/20	2.70%	a	6,258,000	-	894,000	5,364,000	894,000
PrintPack	08/15/03	09/01/18	2.65%		1,500,000	-	360,000	1,140,000	360,000
City Oper Ctr	12/07/04	07/01/26	3.50%	a	110,000	-	110,000	-	-
Fountain Way	12/07/04	07/01/31	4.75%	a	2,010,000	-	670,000	1,340,000	670,000
Conference Ctr	12/07/04	07/01/31	4.75%	a	1,025,000	-	1,025,000	-	-
Hotel Promissory	12/07/04	07/01/31	4.75%	a	615,000	-	205,000	410,000	205,000
Rouse Project	12/29/05	01/15/31	5.14%	a	715,000	-	355,000	360,000	360,000
Mariner's Row	12/29/05	01/15/31	5.14%	a	1,660,000	-	820,000	840,000	840,000
Conference Ctr	06/30/06	07/01/31	4.00%	a	6,930,000	-	35,000	6,895,000	1,110,000
CITI A '07	02/26/07	08/01/22	1.13%		2,355,047	-	225,147	2,129,900	240,905
CITI B '07	02/26/07	08/01/22	1.78%		492,647	-	49,474	443,173	52,286
Series 2012A	10/12/12	07/01/30	4.00%	a	25,390,000	-	-	25,390,000	-
Series 2012B	10/12/12	07/01/31	0.76%	a	25,950,000	-	-	25,950,000	340,000
809 Omni Blvd	08/13/07	07/01/17	1.38%		1,500,000	-	-	1,500,000	-
A-School Garage	07/23/15	09/01/27	3.80%		-	12,700,000	-	12,700,000	976,924
Totals					102,571,045	12,700,000	8,531,344	106,739,701	8,986,633
Premium on bonds payable					4,061,925	-	342,401	3,719,524	341,500
Discount on bonds payable					(6,339)	-	(3,881)	(2,458)	(1,844)
Add interest rate swap fair value					2,887,589	-	1,651,289	1,236,300	-
Total bonds payable, net					\$ 109,514,220	\$ 12,700,000	\$ 10,521,153	\$ 111,693,067	\$ 9,326,289

m balance denotes moral obligation of the City

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

a denotes payment agreement with the City

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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

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, 2015 and June 30, 2014, there were eight and six of the Bonds outstanding with an aggregate principal amount payable of approximately \$251 and \$264 million, respectively.

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

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

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

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

During 2015, the 2007A and 2007B swaps were terminated without penalty and reverted to a variable rate of 30-day LIBOR plus .95% and 65% or LIBOR plus 1.66% respectively. In addition, the 2004 debt was paid off at June 30, 2015 leaving only the 2000A and 2000B swaps remaining.

Because interest rates have declined since the execution of the swaps, the swaps had a combined negative fair value of \$1,236,300 as of June 30, 2015. If the Series 2000A or 2000B interest swaps

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

were terminated, the E/IDA would be required to pay a termination payment in the amount of the fair value of the swap as of the termination date.

The PAC Airport Improvement Revenue Bonds at June 30, 2015, are comprised of the following:

Series	Issue Date	Maturity Date	Eff. Int. Rate (%)	Balance July 1, 2014	Reductions	Balance June 30, 2015	Amt Due in one year
2002	07/03/02	07/01/27	4.5	\$ 1,632,869	96,144	1,536,725	108,030
2005A	12/15/05	01/15/32	4.3	5,616,711	220,244	5,396,467	228,956
2005B	12/15/05	01/15/32	5.8	2,497,658	84,924	2,412,734	89,474
Totals				\$ 9,747,238	401,312	9,345,926	426,460

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:				
2016	\$ 8,986,633	4,378,102	426,460	414,168
2017	10,903,641	3,977,399	447,596	389,252
2018	9,501,781	3,538,984	466,904	369,944
2019	7,626,141	3,197,977	487,098	349,750
2020	7,044,630	2,936,178	508,221	328,627
2021-2025	31,136,108	10,923,737	2,893,705	1,290,535
2026-2030	25,780,768	4,442,824	3,102,320	614,339
2031-2032	5,759,999	232,905	1,013,622	42,199
Total	\$ 106,739,701	33,628,106	9,345,926	3,798,814

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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

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(8) Defined Benefit Retirement Plan

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

Plan description:

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

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

Benefits Provided:

All full-time regular employees hired prior to March 1, 2010 for the City and hired prior to July 1, 2009 for Schools are members of the Pension Fund. (Members who have earned a supplemental benefit are shown as "School VRS" members in the chart below.) Employees hired after the above dates are in VRS, a multiple-employer defined benefit pension plan administered by the Commonwealth of Virginia. NNERF benefits are available only to employees with five years' service. School VRS employees who did not have five years' service when the supplemental NNERF benefits were frozen at December 31, 2012, are not eligible for a supplemental benefit from NNERF. For the years ended June 30, 2015 and June 30, 2014, the total payroll of the City and Schools was approximately \$353.0 million and \$345.8 million, respectively, with approximately \$118.6 million and \$123.6 million paid to employees covered by the Pension Fund. The decrease in covered payroll from 2013 is the result of employees retiring or leaving employment.

The Pension Fund provides pension, life insurance and disability benefits. Members vest after five years of credited service. Employees who retire at or after age 60 (50 for police officers, firefighters and deputy sheriffs) with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.0% of their average final compensation for each year of credited service worked through February 28, 2010, 1.85% for each year of credited service from March 1, 2010 through

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

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

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

Number of Employees by Class:

At June 30, 2015, membership in the Plan consisted of:

	Retirees and Beneficiaries	Vested Terminated Employees	Active Employees Vested	Total
City general	1,221	764	1,032	3,017
City police and fire	812	275	748	1,835
Public utilities	244	110	238	592
School VRS	2,541	3,435	-	5,976
School Non-VRS	822	242	583	1,647
Total	<u>5,640</u>	<u>4,826</u>	<u>2,601</u>	<u>13,067</u>

Contributions

Effective January 1, 2013, employee contributions to the Pension Fund were made mandatory. Contributions totaling \$33,258,275 and \$6,443,084 were made by employers and employees, respectively, to the Pension Fund during the year ended June 30, 2015. The percentage of contributions to covered payroll for fiscal year 2015 was 33.5% and 28.8% for fiscal year 2014. The percentage of normal costs to covered payroll was 7.98% and 8.03% for fiscal years ending June 30, 2015 and June 30, 2014, respectively.

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Net Pension Liability

The City's net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The actuarial assumptions have been approved by the Pension Board of Trustees, upon the recommendations from the Plan actuary, based on the experience study of the period July 1, 2008 through June 30, 2012. The significant actuarial assumptions are shown below:

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry Age Normal
Amortization method	Closed
Remaining amortization period	25 years
Asset Valuation method	Five-Year smoothed market
Actuarial assumptions:	
Investment rate of return	7.50%
Rate of salary increases	For the City: 2.00% for the next three years 4.50% thereafter For the Non-VRS Schools: 3.00% for the next two years 2.00% for the third year 4.5% thereafter
Cost of living adjustment	1.33%
Inflation	2.80%
Rate of Mortality	RP-2000 male and female mortality tables

The long-term expected rate of return on NNERF investments was determined using best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation), developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 are summarized in the following table:

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Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
Large Cap Equities	7.3%	24.0%
Mid Cap Equities	10.3%	14.0%
Small Cap Equities	7.3%	12.0%
International Equities	4.2%	12.0%
Emerging Markets	5.9%	4.0%
Real Estate	7.1%	4.0%
Private Equities	13.1%	6.0%
Timberland	5.0%	8.0%
Fixed Income (Bonds)	2.7%	15.0%
Cash	0.0%	1.0%
Total		100.0%

Changes in the Net Pension Liability

The City's change in net pension liability of the Pension Fund for 2014 was as follows:

	Total Pension Liability (a)	Fiduciary Net Position			Net Position Liability (a)-(b)
		City's (b)	Proprietary's (b)	School's (b)	
Balances at June 30, 2013	\$ 1,179,825,250	\$ 538,037,017	\$ 59,140,667	\$ 176,935,085	\$ 405,712,480
Changes for the year:					
Service cost	10,534,763	-	-	-	10,534,763
Interest	86,803,765	-	-	-	86,803,765
Contributions - employer	-	20,409,641	2,243,414	6,711,771	(29,364,826)
Contributions - member	-	4,558,477	501,065	1,499,069	(6,558,611)
Net investment income	-	78,681,684	8,648,638	25,874,707	(113,205,029)
Benefit payments	(67,393,918)	(46,841,267)	(5,148,761)	(15,403,891)	-
Administrative expenses	-	(602,261)	(66,200)	(198,055)	866,517
Net changes	29,944,610	56,206,274	6,178,156	18,483,602	(50,923,421)
Balances at June 30, 2014	\$ 1,209,769,860	\$ 594,243,291	\$ 65,318,823	\$ 195,418,687	\$ 354,789,059

The following schedule includes the proportionate shares by Activities:

Governmental Activities	\$ 20,409,635	\$ 246,591,523	69.50%
Business - type Activities	2,243,413	27,105,175	7.64%
Component Unit - School Board	6,711,778	81,092,361	22.86%
Total	\$ 29,364,826	\$ 354,789,059	100.00%

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Notes to Basic Financial Statements

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

The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that the City's 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. Based on these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current members until the last payment for the current covered population is made as of June 30, 2015 measurement date. Consequently, the single equivalent rate used to determine the total pension liability as of June 30, 2015 is 7.5%, the long-term expected rate-of-return as defined by GASB 67 and 68 as of that date.

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

	1% Decrease 6.50%	Discount Rate 7.50%	1% Increase 8.50%
Total pension liability	\$ 1,349,395,659	\$ 1,209,769,860	\$ 1,093,015,910
Plan fiduciary net position	854,980,801	854,980,801	854,980,801
Net pension Liability	<u>\$ 494,414,858</u>	<u>\$ 354,789,059</u>	<u>\$ 238,035,109</u>
Plan fiduciary net position as a Percentage of the Total Pension Liability	63.4%	70.7%	78.2%

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

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Notes to Basic Financial Statements

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

For the year ended June 30, 2015 the City recognized pension expense of \$23,511,234. At June 30, 2015, 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
Contributions subsequent to measurement date	\$ <u>23,569,764</u>	\$ <u>-</u>	\$ <u>2,933,669</u>	\$ <u>-</u>	\$ <u>26,503,433</u>	\$ <u>-</u>
Net difference between projected and actual earnings on pension plan investments.	\$ <u>-</u>	\$ <u>28,633,297</u>	\$ <u>-</u>	\$ <u>4,360,967</u>	\$ <u>-</u>	\$ <u>32,994,264</u>

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

Year ended June 30:

2016	\$ (6,917,931)
2017	(8,692,111)
2018	(8,692,111)
2019	(8,692,111)
Thereafter	-
Total	\$ <u>(32,994,264)</u>

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Funded Ratio

The funded status of the Pension Fund as of 2014 was as follows (\$ in millions):

	2014
Funded Ratio	70.7 %
Covered Payroll	\$ 147.5
NPL as a percentage of covered payroll	240.5 %
Plan Fiduciary Net Position	\$ 855.0
Total Pension Liability	\$ 1,210.0
Net Position Liability	\$ 355.0

The reporting date for the Pension Fund is June 30, 2014. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2014 and the Total Pension Liability (TPL) as of the valuation date, June 30, 2013, updated to June 30, 2014. There were no significant events between the valuation date and the measurement date; therefore, the update procedures only included the addition of service cost and interest cost offset by actual benefit payments. In future years, both the beginning and end of year TPL will be measured as of a valuation date on year prior and projected to the appropriate date.

Analysis of the dollar amounts of the plan fiduciary net position, total pension liability, and net position liability in isolation can be incomplete. Expressing plan fiduciary net position as a percentage of the total pension liability provides one indication of the Plan's funding status on a going concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. 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, 2015, the City did not have a payable to the pension plan.

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Notes to Basic Financial Statements

June 30, 2015

(b) Virginia Retirement System:

Plan Description:

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

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

Benefits Provided:

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

VRS issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2014-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

VRS administers three different benefit plans for local government employees – Plan 1, Plan 2, and Hybrid. Each plan has different eligibility and benefit structures as set out in the table below

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About VRS Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	About VRS Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") <ul style="list-style-type: none">• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
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<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • State employees* • School division employees • Political subdivision employees* • Judges appointed or elected to an original term on or after January 1, 2014 • Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Members of the State Police Officers' Retirement System (SPORS) • Members of the Virginia Law Officers' Retirement System (VaLORS) • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not</p>
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		eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.
<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the</p>	<p>Creditable Service Same as VRS Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to</p>

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June 30, 2015

health insurance credit in retirement, if the employer offers the health insurance credit.		<p>calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as VRS Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the</p>

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		<p>employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the</p>	<p>Calculating the Benefit See definition under VRS Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under VRS Plan 1.</p> <p><u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>

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Basic Benefit.		
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier 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%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.	Service Retirement Multiplier 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.	Service Retirement Multiplier The retirement multiplier is 1.0%. For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.
Normal Retirement Age Age 65.	Normal Retirement Age Normal Social Security retirement age.	Normal Retirement Age <u>Defined Benefit Component:</u> Same as VRS Plan 2. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.	Earliest Unreduced Retirement Eligibility Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal	Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> Normal Social Security retirement age and have at least five years (60 months) of creditable service or when

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<p>Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>90. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>their age and service equal 90. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p>Political subdivisions hazardous duty employees at age 50 with at least five years of creditable service</p>	<p>Earliest Reduced Retirement Eligibility Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees are the same as VRS Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as VRS Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as VRS Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as VRS Plan 1 and VRS Plan 2.</p>

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<p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 	<p><u>Exceptions to COLA Effective Dates:</u> Same as VRS Plan 1</p>	<p><u>Exceptions to COLA Effective Dates:</u> Same as VRS Plan 1 and VRS Plan 2.</p>
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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

31) from the date the monthly benefit begins.		
<p>Disability Coverage</p> <p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage</p> <p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage</p> <p>Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p> <p>Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>
<p>Purchase of Prior Service</p> <p>Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Purchase of Prior Service</p> <p>Same as VRS Plan 1.</p>	<p>Purchase of Prior Service</p> <p><u>Defined Benefit Component:</u></p> <p>Same as VRS Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that on-year period, the rate for most categories of service will change to actuarial cost.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

		<u>Defined Contribution Component:</u> Not applicable.
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Number of Employees by Class:

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

June 30, 2014

	Retirees and Beneficiaries
Inactive Members or Their Beneficiaries Currently Receiving Benefits	2
Inactive Members	11
Vested	130
Non-Vested	48
Active Elsewhere in VRS	189
Total Inactive Members	706
Total	897

Contributions:

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

The contribution rates for the fiscal year ended June 30, 2015 were 6.01% of covered annual payroll for the City. For the fiscal year ended June 30, 2015, the annual pension costs for VRS employees of \$2.4 million were equal to the required and actual contributions.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

Net Pension Asset:

The City's net pension asset was measured as of June 30, 2014. The total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014. The significant actuarial assumptions are shown below:

Actuarial valuation date	June 30, 2013 rolled forward to June 30, 2014
Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	30 years
Asset Valuation method	Five-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.0%, net of pension plan investment expense, Including inflation*
Projected salary increases	3.5– 5.35%
Includes inflation at	2.5 %
Cost of Living adjustments	2.25 -2.5%

- * 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 Rate: 14% of deaths are assumed to be service related

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

Update mortality table

Decrease in rates of service retirement

Decrease in rates of disability retirement

Reduce rates of salary increase by 0.25% per year

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

Update mortality table

Decrease in rates of service retirement

Decrease in rates of disability retirement

Reduce rates of salary increase by 0.25% per year

Long-term Expected Rate of Return:

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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

Asset Class	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Avg Long-Term Expected Rate of Return
U.S Equity	19.5%	6.5%	1.3%
Developed Non U.S Equity	16.5%	6.3%	1.0%
Emerging Market Equity	6.0%	10.0%	0.6%
Fixed Income	15.0%	0.1%	0.0%
Emerging Debt	3.0%	3.5%	0.1%
Rate Sensitive Credit	4.5%	3.5%	0.2%
Non Rate Sensitive Credit	4.5%	5.0%	0.2%
Convertibles	3.0%	4.8%	0.1%
Public Real Estate	2.3%	6.1%	0.1%
Private Real Estate	12.8%	7.1%	0.9%
Private Equity	12.0%	10.4%	1.3%
Cash	1.0%	-1.5%	0.0%
Total	100.0%		5.8%
	Inflation		2.5%
	*Expected arithmetic nominal return		8.3%

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

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Notes to Basic Financial Statements

June 30, 2015

Changes in the Net Pension Asset

The City's change in net pension asset of the VRS Plan for 2014 was as follows:

	Total Pension Liability (a)	City's Fiduciary Net Position (b)	Proprietary's Fiduciary Net Position (b)	Net Position Asset (a)-(b)
Balances at June 30, 2013	\$ 6,336,456	\$ 7,239,666	\$ 544,921	\$ (1,448,131)
Changes for the year:				
Service cost	3,376,352	-	-	3,376,352
Interest	441,527	-	-	441,527
Contributions - employer	-	2,826,662	212,760	(3,039,422)
Contributions - member	-	1,567,831	118,009	(1,685,840)
Net investment income	-	1,478,310	111,271	(1,589,581)
Benefit payments	(57,843)	(53,794)	(4,049)	-
Administrative expenses	-	(4,149)	(312)	4,461
Other Changes	-	77	6	(83)
Net changes	<u>3,760,036</u>	<u>5,814,938</u>	<u>437,684</u>	<u>(2,492,586)</u>
Balances at June 30, 2014	<u>\$ 10,096,492</u>	<u>\$ 13,054,604</u>	<u>\$ 982,605</u>	<u>\$ \$ (3,940,717)</u>

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

The discount rate used to measure the total pension asset was 7.00 percent.

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

	1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
Plan's Net Pension Asset	1,781,025	3,940,717	5,617,268

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

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Notes to Basic Financial Statements

June 30, 2015

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

For the year ended June 30, 2015, the City recognized VRS pension expense of \$1,251,999. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Governmental Activities		Business- type Activities		Total Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	\$ 2,209,287	\$ -	\$ 184,676	\$ -	\$ 2,393,963	\$ -
Net difference between projected and actual earnings on pension plan investment	\$ -	\$ 655,242	\$ -	\$ 49,921	\$ -	\$ 705,163

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

Year ended June 30:

2016	\$ (176,291)
2017	(176,291)
2018	(176,291)
2019	(176,290)
Thereafter	-
Total	\$ (705,163)

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, 2015, the City did not have a payable to the pension plan.

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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

(9) Other Postemployment Benefits (OPEB) Fund

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

Plan Description

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

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

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

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

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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

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

	Health Insurance		Dental Insurance		Life Insurance	
	Participants	Costs	Participants	Costs	Participants	Costs
2015	1,801	\$ 7,478,885	1,485	\$ 505,231	1,552	\$ 333,323
2014	1,786	\$ 7,682,357	1,408	\$ 507,588	1,771	\$ 368,590
2013	1,802	\$ 7,370,709	1,385	\$ 497,019	1,757	\$ 354,022

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

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

Contribution Required and Contributions Made

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

Contributions by the City to the OPEB Fund totaling \$10.2 million, \$10.2 million and \$10.5 million were made during the years ended June 30, 2015, 2014, and 2013. The following table shows the components of the City's annual OPEB costs for the year, the amounts contributed to the Plan, and changes in the City's net OPEB obligation:

	2015	2014	2013
Annual Required Contribution	\$ 12,569,567	\$ 12,432,179	\$ 16,868,638
Interest on net OPEB Obligation	1,196,914	1,133,296	895,268
Adjustment to annual required contribution:	(1,872,194)	(1,735,035)	(1,343,192)
Annual OPEB Cost	11,894,287	11,830,440	16,420,714
Contributions made	(10,240,000)	(10,240,000)	(10,470,000)
Increase in net OPEB obligation	1,654,287	1,590,440	5,950,714
Net OPEB obligation at beginning of fiscal year	29,922,851	28,332,411	22,381,697
Net OPEB obligation at end of fiscal year	\$ 31,577,138	\$ 29,922,851	\$ 28,332,411

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Notes to Basic Financial Statements

June 30, 2015

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligations
June 30, 2015	\$ 11,894,287	86.09%	\$ 31,577,138
June 30, 2014	\$ 11,830,440	86.56%	\$ 29,922,851
June 30, 2013	\$ 16,420,714	63.76%	\$ 28,332,411

Funded Status and Funding Progress

The funded status of the City's OPEB Fund (in millions) as of fiscal, 2015, 2014 and 2013 was as follows:

	2015	2014	2013
Actuarial value of assets	\$ 27.5	\$ 25.1	\$ 20.5
Actuarial Accrued Liability (AAL)	178.0	176.0	172.5
Unfunded AAL (UAAL)	\$ 150.5	\$ 150.9	\$ 152.0
	2015	2014	2013
Funded Ratio	15.0 %	14.0 %	12.0 %
Covered Payroll	\$ 105.4	\$ 109.8	\$ 115.1
UAAL as a percentage of covered payroll	142.8 %	137.4 %	132.2 %

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

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

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

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Notes to Basic Financial Statements

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Actuarial Methods and Assumptions

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

Actuarial valuation date	July 1, 2015
Actuarial cost method	Projected Unit Credit
Amortization method	Level Dollar Closed
Remaining amortization period	25 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	4.00%
Rate of salary increases	3.00%
Ultimate rate of medical inflation (capped by employer policy)	1.33%
Inflation	2.80%

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

Plan Description

The Line of Duty Plan (LOD) was established by the 2010 Appropriation Act of the Virginia General Assembly, and provides death and health, dental and vision insurance benefits for public safety employees who are injured in the line of duty. Although the benefit is administered by City, the State Comptroller determines the benefit eligibility. The Newport News LOD plan is a single-employer plan. Benefits and contribution provisions are established by City Council. An actuarial service is employed to advise City Council of the contributions necessary to fund the benefits.

The actual cost to the City was \$291,514 for the year ending June 30, 2015. Approximately 1,140 active employees are covered under the Plan, and 20 retired employees and spouses are currently receiving benefits.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

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Contribution Required and Contributions Made

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

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

(in millions)	2015
Annual Required Contribution	\$ 1.146
Interest on net OPEB Obligation	0.072
Adjustment to annual required contribution:	(0.104)
Annual OPEB Cost	1.114
Contributions made	(0.238)
Increase in net OPEB obligation	0.876
Net OPEB obligation at beginning of fiscal year	1.797
Net OPEB obligation at end of fiscal year	2.673

Funded Status and Funding Progress

The funded status of the City's LOD Plan (in millions) as of fiscal 2015 is as follows:

	2015
Actuarial value of assets	\$ -
Actuarial Accrued Liability (AAL)	10.0
Unfunded AAL (UAAL)	\$ 10.0

	2015
Funded Ratio	0.0 %
Covered Payroll	\$ 56.4
UAAL as a percentage of covered payroll	17.7 %

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

Analysis of the dollar amounts of actuarial valued assets, actuarial liability, and unfunded actuarial liability in isolation can be incomplete. Expressing actuarial valued assets as a percentage of the actuarial liability provides one indication of the Plan's funding status on

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a going concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker.

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

Actuarial Methods and Assumptions

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

Actuarial valuation date	July 1, 2015
Actuarial cost method	Projected Unit Credit
Amortization method	Level Dollar Closed
Remaining amortization period	25 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%
Inflation	2.80%

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

Plan Description

In FY 2000, an OPEB fund was established to accumulate assets to pay for other postemployment benefits. The fund was administered by the City to provide health, dental and life insurance benefits for City and School Board retirees. During FY 2010, the School Board established a separate Trust Fund apart from the City and all assets belonging to the School Board were transferred to this new fund. The plan is a single-employer plan. Benefits and contribution provisions are established by the School Board

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

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and may be amended only by the School Board. An actuarial service is employed to advise the School Board of the contributions necessary to fund the benefits.

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

Approximately 230 Schools retirees who are grandfathered participate in the City OPEB Fund's sponsored life insurance coverage which is paid by Schools. These retirees have elected supplemental coverage under the City's OPEB fund.

The OPEB Trust Fund does not issue a separate report.

Contribution Required and Contributions Made

OPEB funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. A level percentage of payroll amounts, with a 27-year amortization period is used for purposes of computing the minimum accrual in accordance with GAAP. The projected unit credit method is used for cost calculations.

Contributions to normal costs totaling \$0.7 million were made during the year ended June 30, 2015. The School Board's annual OPEB cost for the past three fiscal years is as follows:

(in millions)	2015	2014	2013
Annual Required Contribution	\$ 7.4	\$ 8.8	\$ 8.7
Interest on net OPEB Obligation	2.1	2.2	2.3
Adjustment to annual required contribution:	(2.5)	(2.5)	(2.6)
Annual OPEB Cost	7.0	8.5	8.4
Contributions made	(7.4)	(8.6)	(8.6)
Increase in net OPEB obligation	(0.4)	(0.1)	(0.2)
Net OPEB obligation at beginning of fiscal year	28.7	28.8	29.0
Net OPEB obligation at end of fiscal year	<u>\$ 28.3</u>	<u>\$ 28.7</u>	<u>\$ 28.8</u>

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Notes to Basic Financial Statements

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Funded Status and Funding Progress

The funded status of the Schools plan as of June 30, 2015 was as follows:

(in millions)

Actuarial value of assets	\$	15.8
Actuarial Accrued Liability (AAL)		93.0
Unfunded AAL (UAAL)	\$	<u>77.2</u>
Funded ratio		17.0%
Covered Payroll	\$	111.5
UAAL as a percentage of covered payroll		69.2%

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

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

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

Actuarial Methods and Assumptions

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

Actuarial valuation date	July 1, 2014
Actuarial cost method	Projected Unit Credit
Amortization method	Level Dollar Closed

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Notes to Basic Financial Statements

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Amortization period	26 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	7.50%
Rate of salary increases	NA%
Ultimate rate of medical inflation	5.00%

(d) Peninsula Airport Commission (PAC)

Plan Description

In addition to providing the pension benefits, the PAC provides postemployment health care benefits (OPEB) for retired employees through a single-employer defined benefit plan. The benefits, benefit levels, employee contributions and employer contributions are governed by the PAC and can be amended by the PAC through its personnel manual and employment contracts. The OPEB plan does not issue a publicly available report.

The PAC provides postemployment health care benefits to its retirees. Employees hired prior to July 1, 2010 are eligible to retire and receive postretirement medical benefits at the earlier of age 55 with at least five years of service or age 50 with 30 years of service. Employees hired on or after July 1, 2010 are eligible to retire and receive postretirement medical benefits at the earlier of age 60 with at least five years of service or when the employees' age plus service is greater than or equal to 90.

The PAC receives health coverage through the City of Newport News, Virginia which offers medical coverage to eligible retirees and their eligible dependents through Anthem KeyCare Plans, a Humana Plan and Delta Dental. Benefits include general inpatient and outpatient medical services, dental care and prescription drugs. Non-Medicare eligible retirees have a choice of three Anthem KeyCare Plans: a PPO Plan, a HMO Plan or a High-Deductible Health Plan with a health savings account. For those retirees eligible for Medicare, the PAC provides the benefits available through the Humana Plan reduced by any amounts payable by Medicare.

The valuation of postretirement medical benefits was based on the following census data as of July 1, 2013: 13 retirees, 6 spouses, and 48 active employees.

Contribution Required and Contributions Made

The City provides to the PAC the medical and dental premiums for the year; the retirees contribute 75% of the premium if they have at least 5 years of service, 50% with ten years of service, and 25% with 15 or more years of service. The postretirement medical insurance benefits are currently funded on a pay-as-you-go basis. The PAC currently funds

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

on a cash basis as benefits are paid. No assets have been segregated and restricted to provide postretirement benefits.

The PAC had an actuarial valuation performed for the plan as of July 1, 2013, to determine the funded status of the plan as of that date as well as the employer's annual required contribution (ARC) for the fiscal year ended June 30, 2014. The PAC's annual OPEB cost and liability are as follows:

Annual required contribution	\$ 394,155
Interest on net OPEB obligation	7,806
Less - contributions made in the form of retiree insurance premiums paid	(98,057)
Net OPEB obligation - beginning of year	<u>3,752,331</u>
Net OPEB obligation - end of year	<u>\$ 4,056,235</u>

Since the PAC operates on an unfunded pay-as-you-go basis, the net OPEB obligation is equal to the ARC less current year retiree premium payments and the plan is unfunded.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARCs of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, as follows, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Funded Status and Funding Progress

The funded status of the Fund as of fiscal, 2013, 2010 and 2007 was as follows (in thousands):

	<u>2013</u>	<u>2010</u>	<u>2007</u>
Actuarial value of assets	\$ -	\$ -	\$ -
Actuarial Accrued Liability (AAL)	<u>3,650.0</u>	<u>3,839.0</u>	<u>4,155.8</u>
Unfunded AAL (UAAL)	<u><u>3,650.0</u></u>	<u><u>3,839.0</u></u>	<u><u>4,155.8</u></u>
	<u>2013</u>	<u>2010</u>	<u>2007</u>
Funded Ratio	- %	- %	- %
Covered Payroll	\$ 2,989.0	\$ 3,114.0	\$ 2,112.0
UAAL as a percentage of covered payroll	117.2 %	123.3 %	196.8 %

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

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

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

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculations.

In the July 1, 2013, actuarial valuation, the actuarial accrued liability was determined based on the projected unit credit actuarial cost method. The actuarial assumptions included a 4.0% discount rate assuming that the plan is not funded and an initial annual healthcare cost trend rate of 4.50% over 15 years. Both rates include a 2.8% inflation assumption. The plan has no assets. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls over 30 years, assuming payroll growth is 3.0%.

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Notes to Basic Financial Statements

June 30, 2015

(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 2015, based on an average City salary of \$48,610, the City contributed \$1,458 per participant. For the year ended June 30, 2015, the City contributed a total of \$1,370,016 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, 2015

(11) Self Insurance

(a) Medical Benefits

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

Changes in the medical incurred but not reported amount during the fiscal years ended June 30, 2015 and 2014 for the City and the Public Schools were as follows:

	City		Public Schools	
	2015	2014	2015	2014
Claims payable at beginning of year	\$ 4,331,252	3,304,695	2,792,000	2,461,000
Claims and changes in estimates	35,558,716	33,026,174	25,019,164	27,961,633
Claim payments	(36,353,499)	(31,999,617)	(25,150,164)	(27,630,633)
Claims payable at end of year	<u>\$ 3,536,469</u>	<u>\$ 4,331,252</u>	<u>2,661,000</u>	<u>2,792,000</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, 2015 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, 2015 and 2014 for the City and the Public Schools.

	City		Public Schools	
	2015	2014	2015	2014
Claims payable at beginning of year	\$ 11,443,096	10,769,830	2,901,090	1,914,500
Claims and changes in estimates	2,228,387	3,612,862	3,526,298	2,284,520
Claim payments	(2,500,075)	(2,939,596)	(1,670,086)	(1,297,930)
Claims payable at end of year	<u>\$ 11,171,408</u>	<u>11,443,096</u>	<u>4,757,302</u>	<u>2,901,090</u>

A loss analysis was conducted by Oliver Wyman Actuarial Consulting, Inc. on this fund. The total actuarially computed liability as of June 30, 2012 for the City and School Board was determined to be approximately \$11.2 million and \$4.8 million, respectively.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

(c) Other

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

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

Auto & General Liability	City	
	2015	2014
Claims payable at beginning of year	\$ 5,619,350	\$ 4,873,016
Claims and changes in estimates	(2,603,978)	1,290,388
Claim payments	(1,032,297)	(544,054)
Claims payable at end of year	<u>\$ 1,983,075</u>	<u>\$ 5,619,350</u>

The auto and general liability claims decreased from \$5.6 million to \$2.0 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, 2015, 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, 2015 the City had outstanding encumbrances as follows:

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

General Fund

General government	\$ 1,551,542
Self insurance	3,238
Judicial	204
Public safety	2,509,492
Public works	1,786,222
Health and welfare	10,818
Parks, recreation and cultural	92,701
Community development	9,170
Total General Fund	<u>\$ 5,963,387</u>

Bond Fund

General government	\$ 5,316
Public safety	4,103,736
Public works	7,814,408
Health and welfare	51,598
Parks, recreation and cultural	1,272,752
Community development	1,858,717
Total Bond Fund	<u>\$ 15,106,527</u>

Nonmajor governmental funds

General government	\$ 3,366,239
Public safety	1,171,448
Public works	6,612,015
Health and welfare	784,347
Parks, recreation and cultural	429,384
Community development	\$ 1,381,313
Total nonmajor governmental funds	<u>\$ 13,744,746</u>
Total	<u><u>\$ 34,814,660</u></u>

(13) Jointly Governed Organizations and Joint Ventures

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

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

(b) Hampton Roads Regional Jail Authority (HRRJA)

The HRRJA is a public corporate instrumentality of the Commonwealth of Virginia, created December 14, 1993, by the cities of Hampton, Newport News, Norfolk and Portsmouth. Beginning July 1, 2014, the City of Chesapeake entered into an agreement with the Authority to become a full member upon adoption of the agreement by all five City Councils. This was accomplished by approval of a revised and restated

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

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

(c) Hampton Roads Economic Development Alliance (HREDA)

The HREDA is a non-profit, public-private partnership that aggressively markets Virginia's Hampton Roads region as the primary region of choice for economic investment and business expansion. All HREDA business attraction initiatives and activities are designed to promote the jurisdictions of Chesapeake, Franklin, Gloucester, Hampton, Isle of Wight County, James City County, Newport News, Norfolk, Poquoson, Portsmouth, Southampton County, Suffolk, Virginia Beach, Williamsburg and York County, Virginia. The business affairs are managed by a Board of not less than fifty or more than 300 Directors. The City's Mayor and the Director of E/IDA are board members. HREDA receives funding from both private and public entities. Newport News contributed \$161,685 in FY 15. Separate financial statements are available from the HREDA, 500 East Main Street, Suite 1300, Norfolk, Virginia 23510.

(14) Deficit Fund Balance

The City of Newport News has an accumulated deficit of \$5,568,420 in the Governmental Funds' Balance Sheet for the Bond Fund as of June 30, 2015. The Bond fund deficit is the result of an \$18,988,202 payable due to the Newport News Public Schools for the construction of a replacement elementary school entitled Magruder Elementary. Construction of Magruder is scheduled to be complete in fiscal year 2017. This deficit does not indicate the Bond fund is facing financial difficulty.

(15) Subsequent Events

Subsequent events have been analyzed through November 30, 2015 noting the following:

E/IDA

The Authorities authorized a Resolution to issue tax-exempt Industrial Revenue Bonds for the benefit of Riverside Health Care Systems to facilitate the financing of projects for various Riverside Healthcare Systems in Newport News, Gloucester County and James City County. The Series 2015A bonds and 2015B bonds were issued on July 1, 2015 not to exceed the amounts of \$100,000,000 and \$25,000,000 respectively.

Public Schools

In July 2015, the School Board entered into an agreement with Banc of American Public Service Corp to finance various energy saving and building improvements. The acquisition value of this contract is \$15,222,827. Two other agreements with Ameresco, Inc. and Chesapeake Controls, Inc. respectively were

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2015

also entered into to perform the improvements. The agreement will be accounted for as a capital lease and the debt will be labeled as a facility note payable.

An interest only payment of \$402,436 will start in FY2017 and then principal and interest payments continue annually in FY2018 until the final payment in FY2032. Payments will gradually increase in amount each fiscal year starting with a payment of \$1,101,155 in FY2018 until the concluding payment due in FY2032 of \$1,547,787. The contract interest is 2.651 percent per annum.

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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, 2015

	<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	\$ 167,776,788	167,776,788	169,943,973	2,167,185
Real and personal public service corporation property taxes	5,422,924	5,422,924	6,297,153	874,229
Personal property taxes	52,946,000	52,946,000	50,981,527	(1,964,473)
Machinery and tools taxes	18,200,000	18,200,000	19,772,254	1,572,254
Penalties and interest	1,027,000	1,027,000	1,302,513	275,513
Total general property taxes	<u>245,372,712</u>	<u>245,372,712</u>	<u>248,297,420</u>	<u>2,924,708</u>
Other local taxes:				
E-911 service revenue	710,946	710,946	722,381	11,435
Telecom sales taxes	11,900,000	11,900,000	11,679,829	(220,171)
Local sales and use taxes	23,646,658	23,646,658	23,390,029	(256,629)
Consumers' utility taxes	6,500,000	6,500,000	6,312,731	(187,269)
Consumption tax	705,000	705,000	714,814	9,814
Business license taxes	16,451,000	16,451,000	16,360,314	(90,686)
Rental car taxes	1,208,000	1,208,000	1,119,583	(88,417)
Motor vehicle license	4,100,000	4,100,000	4,009,795	(90,205)
Bank stock taxes	800,000	800,000	642,977	(157,023)
Taxes on recordation and wills	1,500,000	1,500,000	1,340,624	(159,376)
Tobacco taxes	5,200,000	5,200,000	4,949,954	(250,046)
Hotel and motel room taxes	4,115,001	4,115,001	4,013,332	(101,669)
Restaurant food taxes	23,074,965	23,074,965	24,136,927	1,061,962
Tourism zone taxes	235,070	235,070	96,601	(138,469)
Amusement taxes	921,590	921,590	872,557	(49,033)
Total other local taxes	<u>101,068,230</u>	<u>101,068,230</u>	<u>100,362,448</u>	<u>(705,782)</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	57,000	57,000	49,703	(7,297)
Permits and other licenses	3,076,547	3,076,547	3,815,786	739,239
Total permits, privilege fees, and regulatory licenses	<u>3,133,547</u>	<u>3,133,547</u>	<u>3,865,489</u>	<u>731,942</u>
Fines and forfeitures	<u>2,708,251</u>	<u>2,708,251</u>	<u>2,247,099</u>	<u>(461,152)</u>
Revenue from use of money and property:				
Revenue from use of money	392,015	392,015	431,793	39,778
Revenue from use of property	<u>1,685,712</u>	<u>1,685,712</u>	<u>1,750,992</u>	<u>65,280</u>
Total revenue from use of money and property	<u>2,077,727</u>	<u>2,077,727</u>	<u>2,182,785</u>	<u>105,058</u>
Charges for services:				
Court costs	1,058,097	1,058,097	931,657	(126,440)
Law enforcement and traffic control	70,300	70,300	89,260	18,960
Fire and rescue services	3,868,800	3,868,800	4,095,381	226,581
Information Technology	1,456,075	1,456,075	1,455,975	(100)
Parks and recreation	7,104,677	7,104,677	6,668,305	(436,372)
Cultural enrichment	182,161	182,161	145,159	(37,002)
Self-insurance premiums	2,187,574	2,187,574	2,403,134	215,560
Library	68,000	68,000	64,936	(3,064)
Planning and community development	3,000	3,000	4,608	1,608
Indirect costs	4,866,449	4,866,449	4,866,110	(339)
Animal services	39,861	39,861	42,476	2,615
Applied research center	310,908	310,908	283,356	(27,552)
Total charges for services	<u>\$ 21,215,902</u>	<u>21,215,902</u>	<u>21,050,357</u>	<u>(165,545)</u>

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, 2015

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Recovered costs:				
Health department	\$ 26,583	26,583	19,309	(7,274)
Juvenile detention home	3,808,573	3,808,573	4,055,716	247,143
City farm	794,000	794,000	714,138	(79,862)
City jail	1,038,001	1,038,001	1,109,191	71,190
Sewer assessments - debt service	15,000	15,000	47,525	32,525
Total recovered costs	<u>5,682,157</u>	<u>5,682,157</u>	<u>5,945,879</u>	<u>263,722</u>
Miscellaneous revenue:				
Payments in lieu of taxes	2,438,093	2,438,093	2,402,483	(35,610)
Miscellaneous	1,710,971	1,710,971	1,871,322	160,351
Total miscellaneous revenues	<u>4,149,064</u>	<u>4,149,064</u>	<u>4,273,805</u>	<u>124,741</u>
Total revenues from local sources	<u>385,407,590</u>	<u>385,407,590</u>	<u>388,225,282</u>	<u>2,817,692</u>
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' taxes	48,057	48,057	67,702	19,645
Mobile home titling taxes	50,000	50,000	50,091	91
Tax on deeds	300,000	300,000	363,237	63,237
State rebate - recording tax	415,000	415,000	496,515	81,515
DCJP grants for law enforcement	8,742,111	8,742,111	8,476,100	(266,011)
Total noncategorical aid	<u>9,555,168</u>	<u>9,555,168</u>	<u>9,453,645</u>	<u>(101,523)</u>
Shared expenses:				
Technology trust fund	-	68,000	64,500	(3,500)
Commonwealth's Attorney	1,690,541	1,690,541	1,820,339	129,798
Sheriff	6,800,000	6,800,000	7,113,216	313,216
Commissioner of the Revenue	372,126	372,126	367,700	(4,426)
Treasurer	342,251	342,251	323,556	(18,695)
Registrar/Electoral Board	55,418	55,418	56,536	1,118
Total shared expenses	<u>9,260,336</u>	<u>9,328,336</u>	<u>9,745,847</u>	<u>417,511</u>
Categorical aid:				
Welfare	22,456,229	22,456,229	23,857,496	1,401,267
Emergency medical service funds	125,000	125,000	-	(125,000)
Library	170,922	170,922	165,752	(5,170)
Other	-	-	12,734	12,734
Total categorical state aid	<u>22,752,151</u>	<u>22,752,151</u>	<u>24,035,982</u>	<u>1,283,831</u>
Total revenue from the Commonwealth	<u>41,567,655</u>	<u>41,635,655</u>	<u>43,235,474</u>	<u>1,599,819</u>
Other financing sources:				
Transfers from other funds	10,250,000	10,250,000	10,250,000	-
Transfers from fund balance	3,800,000	3,800,000	-	(3,800,000)
Total revenues	<u>\$ 441,025,245</u>	<u>441,093,245</u>	<u>441,710,756</u>	<u>617,511</u>

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, 2015

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures:				
General government administration:				
Legislative:				
City Council	\$ 281,267	281,267	271,923	9,344
City Clerk	<u>317,912</u>	<u>317,912</u>	<u>348,799</u>	<u>(30,887)</u>
Total legislative	599,179	599,179	620,722	(21,543)
General and financial administration:				
City Manager	1,467,441	1,467,441	1,485,986	(18,545)
Human resources	1,118,349	1,118,349	1,099,064	19,285
Medical services	63,022	63,022	64,858	(1,836)
City Attorney	1,662,456	1,662,456	1,660,617	1,839
Video production service	461,587	461,587	401,662	59,925
Internal Auditor	527,734	527,734	512,817	14,917
Commissioner of the Revenue	2,476,499	2,476,499	2,321,896	154,603
Real estate assessor	1,609,283	1,609,283	1,581,235	28,048
City Treasurer	2,101,409	2,101,409	2,092,334	9,075
Finance	1,208,415	1,208,415	1,207,576	839
Budget and evaluation	684,445	684,445	592,583	91,862
Auto self-insurance	1,429,000	1,429,000	1,214,225	214,775
General liability self-insurance	1,693,000	1,693,000	2,256,424	(563,424)
Workers' compensation	3,250,200	3,250,200	2,570,992	679,208
Purchasing	1,371,466	1,371,466	1,311,480	59,986
Information technology	<u>8,295,785</u>	<u>8,295,785</u>	<u>7,873,650</u>	<u>422,135</u>
Total general and financial administration	29,420,091	29,420,091	28,247,399	1,172,692
Board of Elections - Registrar	<u>427,451</u>	<u>427,451</u>	<u>384,700</u>	<u>42,751</u>
Nondepartmental:				
Appointed boards	102,198	102,198	91,128	11,070
Community support	2,719,989	2,719,989	2,696,859	23,130
Contract community agencies	6,962,122	6,962,122	6,912,292	49,830
City development	33,745,637	33,745,637	32,049,501	1,696,136
Contractual services	1,534,424	1,534,424	1,509,151	25,273
Internal services	117,000	117,000	883	116,117
Machinery and equipment	714,790	714,790	519,408	195,382
Strategic priorities	1,555,500	1,555,500	1,620,945	(65,445)
Street lighting	853,955	853,955	668,757	185,198
Other	<u>6,073,624</u>	<u>6,073,624</u>	<u>6,201,481</u>	<u>(127,857)</u>
Total nondepartmental	54,379,239	54,379,239	52,270,405	2,108,834
Total general government administration	<u>84,825,960</u>	<u>84,825,960</u>	<u>81,523,226</u>	<u>3,302,734</u>
Judicial administration:				
Courts:				
Circuit Courts	398,188	398,188	400,389	(2,201)
District courts	171,780	171,780	96,544	75,236
Office of the Magistrate	252,475	252,475	244,295	8,180
Juvenile/Domestic Relations Court	43,161	43,161	44,473	(1,312)
Clerk of the Circuit Court	1,467,131	1,535,131	1,545,861	(10,730)
Court services	<u>459,748</u>	<u>459,748</u>	<u>460,485</u>	<u>(737)</u>
Total courts	2,792,483	2,860,483	2,792,047	68,436
Commonwealth's Attorney	<u>3,601,630</u>	<u>3,601,630</u>	<u>3,586,666</u>	<u>14,964</u>
Total judicial administration	\$ <u>6,394,113</u>	<u>6,462,113</u>	<u>6,378,713</u>	<u>83,400</u>

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, 2015

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 43,040,982	43,040,982	42,689,057	351,925
Emergency communications	356,968	356,968	332,633	24,335
Total law enforcement and traffic control	43,397,950	43,397,950	43,021,690	376,260
Fire and rescue services:				
Fire department	28,220,955	28,220,955	28,274,320	(53,365)
Ambulance and rescue service	2,101,365	2,101,365	2,181,596	(80,231)
Total fire and rescue services	30,322,320	30,322,320	30,455,916	(133,596)
Correction and detention:				
Sheriff	19,328,087	19,328,087	18,905,422	422,665
Adult corrections	4,205,672	4,205,672	3,857,073	348,599
Juvenile detention	7,234,860	7,234,860	7,429,412	(194,552)
Total correction and detention	30,768,619	30,768,619	30,191,907	576,712
Inspection – codes compliance	2,778,104	2,778,104	2,802,399	(24,295)
Total public safety	107,266,993	107,266,993	106,471,912	795,081
Public works:				
Engineering:				
Administration	339,033	339,033	61,876	277,157
Civil services	442,344	442,344	457,985	(15,641)
Facilities engineering	-	-	5,300	(5,300)
Technical support	451,541	451,541	381,261	70,280
Site & subdivision services	965,015	965,015	970,016	(5,001)
Environmental services	67,234	67,234	8,501	58,733
Transportation services	845,135	845,135	414,416	430,719
Total engineering	3,110,302	3,110,302	2,299,355	810,947
Public works administration	140,019	140,019	399,151	(259,132)
Maintenance of highways, streets, bridges, and sidewalks	158,897	158,897	483,052	(324,155)
Maintenance of general buildings and grounds	8,774,675	8,774,675	8,596,377	178,298
Total public works	12,183,893	12,183,893	11,777,935	405,958
Health and welfare:				
Health -				
Medical services	3,353,405	3,353,405	3,461,040	(107,635)
Welfare:				
Social services administration	8,537,974	8,537,974	7,775,203	762,771
Financial services	6,803,709	6,803,709	6,170,130	633,579
Social work services	11,479,108	11,479,108	11,852,934	(373,826)
Healthy families	1,505,202	1,505,202	1,441,045	64,157
Employment service program	2,186,064	2,186,064	1,705,644	480,420
CSA administration	381,310	381,310	386,336	(5,026)
Fuel assistance	27,903	27,903	25,760	2,143
Homeless family services	420,243	420,243	354,937	65,306
Cooperative extension	201,770	201,770	199,109	2,661
Total welfare	31,543,283	31,543,283	29,911,098	1,632,185
Total health and welfare	\$ 34,896,688	34,896,688	33,372,138	1,524,550

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, 2015

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Parks, recreation and cultural:				
Parks and recreation:				
Administration	\$ 6,169,658	6,169,658	5,728,092	441,566
Recreation division	2,622,484	2,622,484	2,512,260	110,224
Parks division	3,250,557	3,250,557	3,734,310	(483,753)
Recreation classes	4,490,275	4,490,275	4,796,484	(306,209)
Golf course	1,675,700	1,675,700	1,835,813	(160,113)
Leeward Marina	274,000	274,000	311,282	(37,282)
Festival support	185,898	185,898	247,451	(61,553)
Tourism, promotion and development	1,402,100	1,402,100	1,530,584	(128,484)
Animal services	563,745	563,745	805,953	(242,208)
Total parks and recreation	<u>20,634,417</u>	<u>20,634,417</u>	<u>21,502,229</u>	<u>(867,812)</u>
Cultural enrichment – museum	1,060,800	1,060,800	1,039,293	21,507
Library	4,483,028	4,483,028	4,382,788	100,240
Total parks, recreation and cultural	<u>26,178,245</u>	<u>26,178,245</u>	<u>26,924,310</u>	<u>(746,065)</u>
Community development -				
Planning and community development:				
Development	1,173,664	1,173,664	1,093,286	80,378
Planning	1,019,317	1,019,317	957,301	62,016
Economic development	507,047	507,047	430,466	76,581
Customer Service-311 Call Center	2,304,694	2,304,694	2,403,350	(98,656)
Total community development	<u>5,004,722</u>	<u>5,004,722</u>	<u>4,884,403</u>	<u>120,319</u>
Education -				
General fund transfer to Public Schools	115,300,000	115,300,000	115,300,000	-
Capital projects' transfer to Public Schools	2,000,000	2,000,000	2,000,000	-
Total educations	<u>117,300,000</u>	<u>117,300,000</u>	<u>117,300,000</u>	<u>-</u>
Transfers to other funds:				
Debt service	36,638,205	36,638,205	33,547,171	3,091,034
Capital projects	7,592,039	7,592,039	13,592,039	(6,000,000)
Other	2,744,387	2,744,387	2,391,924	352,463
Total transfers to other funds	<u>46,974,631</u>	<u>46,974,631</u>	<u>49,531,134</u>	<u>(2,556,503)</u>
Total expenditures and transfers to other funds	<u>\$ 441,025,245</u>	<u>441,093,245</u>	<u>438,163,771</u>	<u>2,929,474</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	3,546,985	<u>3,546,985</u>
Less encumbrances outstanding at June 30, 2014 expended or canceled at June 30, 2015			(6,296,336)	
Add encumbrances outstanding at June 30, 2015			<u>5,963,387</u>	
FY 2015 surplus			3,214,036	
Fund balance at beginning of year			<u>97,243,205</u>	
Fund balance at end of year			<u>\$ 100,457,241</u>	

See accompanying notes to required supplementary information

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CITY OF NEWPORT NEWS, VIRGINIA
Required Supplementary Information
Employees' Retirement and OPEB Fund
Schedule of Employer Contributions (Unaudited)
(in millions)
Year ended June 30, 2015

Newport News Employees' Retirement Fund (in millions):

Fiscal year end	Annual required contribution	Actual contribution	Percentage contributed
** 2015	\$ 40.4	\$ 39.7	98%
2014	40.6	35.6	88%
* 2013	56.8	37.0	65%
2012	55.0	32.8	60%
2011	56.7	27.4	48%
2010	41.0	21.2	52%

Newport News Employees' OPEB Fund (in millions):

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

* Beginning January 1, 2013, City employees began contributing 5% of their salary.

** Under GASB 68 & 71 Guidance

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

	<u>2015</u>	<u>2014</u>
Total Pension Liability		
Service costs	\$ 9,926,558	\$ 10,534,763
Interest	88,917,067	86,803,765
Differences between expected and actual experience	6,665,024	-
Changes of assumptions	-	-
Benefit payments, including refunds of member contributions	<u>(69,527,978)</u>	<u>(67,393,918)</u>
Net change in total pension Liability	35,980,671	29,944,610
Total pension liability- beginning	<u>1,209,769,860</u>	<u>1,179,825,250</u>
Total pension liability- ending	\$ <u>1,245,750,531</u>	\$ <u>1,209,769,860</u>
Plan Fiduciary net position		
Contributions-employer	\$ 33,258,275	\$ 29,364,826
Contributions-member	6,738,148	6,558,611
Net investment income	26,194,662	113,205,029
Benefit payments, including refunds of member contributions	(69,527,978)	(67,393,918)
Administrative expense	<u>(1,003,673)</u>	<u>(866,517)</u>
Net change in plan fiduciary net position	\$ (4,340,566)	\$ 80,868,031
Plan Fiduciary net position- beginning	<u>854,980,801</u>	<u>774,112,770</u>
Plan Fiduciary net position- ending	\$ <u>850,640,235</u>	\$ <u>854,980,801</u>
Net Pension liability ending	\$ <u>395,110,296</u>	\$ <u>354,789,059</u>
Plan fiduciary net position as a percentage of the total pension liability	68.28%	70.67%
Coverd employee payroll	\$ 143,332,519	\$ 147,495,050
Net position liability as a percentage of covered employee payroll	275.66%	240.54%

Note: This schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

CITY OF NEWPORT NEWS, VIRGINIA
Required Supplementary Information
Schedule of Changes in the City's Net Position Asset and Related Ratios for VRS
Year ended June 30, 2015

	<u>2014</u>
Total Pension Liability	
Service costs	\$ 3,376,352
Interest	441,527
Benefit payments, including refunds of member contributions	<u>(57,843)</u>
Net change in total pension Liability	3,760,036
Total pension liability- beginning	<u>6,336,456</u>
Total pension liability- ending	\$ <u><u>10,096,492</u></u>
 Plan Fiduciary net position	
Contributions-employer	\$ 3,039,422
Contributions-member	1,685,840
Net investment income	1,589,581
Benefit payments, including refunds of member contributions	(57,843)
Administrative expense	(4,461)
Other	<u>83</u>
Net change in plan fiduciary net position	\$ 6,252,622
Plan Fiduciary net position- beginning	<u>7,784,587</u>
Plan Fiduciary net position- ending	\$ 14,037,209
 Net Pension asset ending	\$ <u><u>(3,940,717)</u></u>
 Plan fiduciary net position as a percentage of the total pension asset	139.03%
 Covered employee payroll	\$ 36,397,255
Net position asset as a percentage of covered employee payroll	10.83%

Note: This schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

CITY OF NEWPORT NEWS, VIRGINIA

Required Supplementary Information

Schedule of City Contributions NNERF

(Dollar amounts in thousands)

		2015	2014
Actuarially determined contribution	\$	40,394	40,628
Contributions in relation to the actuarially determined contribution		33,258	29,365
Contribution deficiency	\$	7,136	11,263
Covered-employee payroll	\$	143,333	147,495
Contributions as a percentage of Covered-employee payroll		23.20%	19.91%

Schedule of City Contributions VRS

(Dollar amounts in thousands)

		2014
Actuarially determined contribution	\$	2,394
Contributions in relation to the actuarially determined contribution		2,394
Contribution excess	\$	-
Covered-employee payroll	\$	36,397
Contributions as a percentage of Covered-employee payroll		6.58%

Note: This schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, all available years are presented. However, additional years will be included as they become available. 2015 data for VRS was unavailable.

CITY OF NEWPORT NEWS, VIRGINIA
Required Supplementary Information
Schedule of Funding Progress (unaudited)
Year ended June 30, 2015

Newport News Employees' OPEB Fund (in millions):

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2015	\$ 27	\$ 178	\$ (151)	15%	\$ 105	-143.8%
June 30, 2014	25	176	(151)	14%	110	-137.4%
June 30, 2013	21	173	(152)	12%	115	-132.2%
June 30, 2012	16	217	(201)	7%	114	-177.2%
June 30, 2011	14	232	(218)	6%	119	-183.7%
June 30, 2010	10	237	(227)	4%	125	-181.7%

Newport News Line of Duty Plan (in thousands):

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
July 1, 2015	\$ -	\$ 9,985	\$ (9,985)	0%	\$ 56,418	-17.7%
July 1, 2014	-	8,686	(8,686)	0%	55,351	-15.7%
July 1, 2013	-	8,464	(8,464)	0%	53,508	-15.8%
July 1, 2012	-	7,703	(7,703)	0%	51,950	-14.8%

Peninsula Airport Commission (PAC) OPEB Fund:

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
July 1, 2013	\$ -	\$ 3,649,745	\$ (3,649,745)	0%	\$ 2,989,000	-117.2%
July 1, 2010	-	3,839,014	(3,839,014)	0%	3,114,372	-123.3%
July 1, 2007	-	4,155,776	(4,155,776)	0%	2,112,183	-196.8%

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

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
06/30/2015	\$ 16	\$ 93	\$ (77)	17%	\$ 112	-69.0%
06/30/2014	14	104	(90)	13%	120	-75.2%
06/30/2013	11	101	(90)	11%	129	-70.0%
06/30/2012	9	84	(75)	10%	137	-54.9%
06/30/2011	7	78	(71)	9%	147	-48.3%
06/30/2010	3	133	(130)	2%	181	-71.8%

**Beginning July 1, 2009, NNSS OPEB Fund separated from the City.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Required Supplementary Information

Year ended June 30, 2015

(1) Budgetary Data

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

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

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

The City may amend the budget or make transfers between functions and budgetary line items without City Council approval. However, the City may not make transfers or expend any sum of money in excess of City Council appropriations, at the fund level, without the consent of the City Council. The legal level of budgetary control for the General Fund is the fund level; however, management control is exercised over the budget at the budgetary line item level. Appropriations, except for encumbrances and committed or assigned fund balances, lapse at year-end. Encumbrances and committed or assigned fund balances outstanding at year-end are re-appropriated in the succeeding year. There were supplemental appropriations made during 2015 for the following reasons: (1) grant matching, (2) funding to meet the increase in operating expenses, (3) capital improvements not included in the Capital Improvements Plan, and (4) increases in school funding.

(2) Legally Adopted Budgets

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

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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Required Supplementary Information

Year ended June 30, 2015

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

Unencumbered appropriations lapse at the end of the fiscal year for the General, School Operating, Street Maintenance, Economic Development, Law Library 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, 2015

	Special Revenue						
	Community development	Street maintenance	Economic development	Law library	Stormwater	Solid waste	Wastewater
Assets							
Cash and cash equivalents	\$ -	-	1,279,039	175,715	7,220,173	716,210	-
Restricted cash	-	-	-	-	-	-	-
Accounts receivable, net	-	-	-	940	707,233	1,384,004	1,057,322
Receivable from other governments:							
Local	-	-	-	-	-	-	-
Virginia	16,866	-	-	-	-	-	-
Federal	-	-	-	-	-	-	-
Advances to other funds	-	-	-	-	-	-	-
Total assets	\$ 16,866	-	1,279,039	176,655	7,927,406	2,100,214	1,057,322
Liabilities							
Accounts payable	\$ 10,621	-	3,713	3,475	172,792	366,829	284,420
Accrued liabilities	-	-	-	-	35,585	30,921	55,339
Unearned revenues	-	-	-	-	-	39,310	-
Advances from other funds	-	-	-	-	-	-	-
Advances from major governmental funds	6,245	-	-	-	-	-	223,635
Total liabilities	16,866	-	3,713	3,475	208,377	437,060	563,394
Deferred Inflows of Resources							
Unavailable revenue-stormwater fees	-	-	-	-	530,555	-	-
Fund Balances							
Restricted	-	-	-	25	7,188,474	1,663,154	493,928
Committed	-	-	1,275,326	173,155	-	-	-
Total fund balances	-	-	1,275,326	173,180	7,188,474	1,663,154	493,928
Total liabilities, deferred inflows and fund balances	\$ 16,866	-	1,279,039	176,655	7,927,406	2,100,214	1,057,322

(continued)

CITY OF NEWPORT NEWS, VIRGINIA

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2015

	Special Revenue				Capital Projects		Total nonmajor
	Comprehensive Services Act	Criminal Justice Academy	Animal shelter	Other federal and state	General capital improvements	Other federal and state	
Assets							
Cash and cash equivalents	\$ -	120,878	200	1,969,512	29,316,642	-	40,798,369
Restricted cash	-	-	-	-	-	1,739,529	1,739,529
Accounts receivable, net	-	-	-	-	-	-	3,149,499
Receivable from other governments:							
Local		-	312,432	481	1,264,799	-	1,577,712
Virginia	1,545,303	-	-	106,940	-	885,537	2,554,646
Federal	-	-	-	697,002	-	747,665	1,444,667
Advances to other fund	-	-	-	-	688,143	-	688,143
Total assets	<u>\$ 1,545,303</u>	<u>120,878</u>	<u>312,632</u>	<u>2,773,935</u>	<u>31,269,584</u>	<u>3,372,731</u>	<u>51,952,565</u>
Liabilities							
Accounts payable	\$ 830,073	15,719	77,005	236,909	518,827	484,304	3,004,687
Accrued liabilities	-	-	3,216	1,423	200,854	15,395	342,733
Unearned revenues	-	-	-	-	-	-	39,310
Advances from other fund	-	-	-	-	-	688,143	688,143
Advances from General Fund	520,908	-	208,449	463,779	-	-	1,423,016
Total liabilities	<u>1,350,981</u>	<u>15,719</u>	<u>288,670</u>	<u>702,111</u>	<u>719,681</u>	<u>1,187,842</u>	<u>5,497,889</u>
Deferred Inflows of Resources							
Unavailable revenue-stormwater fees	-	-	-	-	-	-	530,555
Fund Balances							
Restricted	-	-	-	2,071,824	-	2,184,889	13,602,294
Committed	194,322	105,159	23,962	-	30,549,903	-	32,321,827
Total fund balances	<u>194,322</u>	<u>105,159</u>	<u>23,962</u>	<u>2,071,824</u>	<u>30,549,903</u>	<u>2,184,889</u>	<u>45,924,121</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 1,545,303</u>	<u>120,878</u>	<u>312,632</u>	<u>2,773,935</u>	<u>31,269,584</u>	<u>3,372,731</u>	<u>51,952,565</u>

CITY OF NEWPORT NEWS, VIRGINIA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended June 30, 2015

		Special Revenue						
		Community development	Street maintenance	Economic development	Law library	Stormwater	Solid waste	Wastewater
Revenues:								
Intergovernmental:								
Virginia	\$	-	15,889,942	-	-	6,202	27,111	-
Federal		1,821,643	-	-	-	-	-	-
Charges for services		-	-	-	113,282	17,636,362	14,101,978	20,529,792
Interest and rents		-	-	157,084	-	69,582	49	(2,996)
Miscellaneous		-	-	15,000	-	-	10,542	-
Total revenues		1,821,643	15,889,942	172,084	113,282	17,712,146	14,139,680	20,526,796
Expenditures:								
Current operating:								
General government		-	-	-	124,085	-	-	-
Public safety		-	-	-	-	-	-	-
Public works		-	15,889,942	-	-	11,559,583	12,230,301	12,677,398
Health and welfare		-	-	-	-	-	-	-
Parks, recreation, and culture		-	-	-	-	-	-	-
Community development		1,821,643	-	279,254	-	-	-	-
Capital outlay		-	-	-	-	-	-	-
Total expenditures		1,821,643	15,889,942	279,254	124,085	11,559,583	12,230,301	12,677,398
Excess (deficiency) of revenues over (under) expenditures		-	-	(107,170)	(10,803)	6,152,563	1,909,379	7,849,398
Other financing sources (uses):								
Transfers in		-	-	-	-	-	-	-
Transfers out		-	-	-	-	(3,115,572)	(1,443,200)	(6,682,853)
Total other financing sources (uses), net		-	-	-	-	(3,115,572)	(1,443,200)	(6,682,853)
Net changes in fund balances		-	-	(107,170)	(10,803)	3,036,991	466,179	1,166,545
Fund balances at June 30, 2014		-	-	1,382,496	183,983	4,151,483	1,196,975	(672,617)
Fund balances at June 30, 2015	\$	-	-	1,275,326	173,180	7,188,474	1,663,154	493,928

(continued)

CITY OF NEWPORT NEWS, VIRGINIA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended June 30, 2015

	Special Revenue				Capital Projects		
	Comprehensive Services Act	Criminal Justice Academy	Animal shelter	Other federal and state	General capital improvements	Other federal and state	Total nonmajor
Revenues:							
Intergovernmental:							
Local	\$ -	-	835,178	134,133	1,714,080	-	2,683,391
Virginia	4,440,575	-	-	1,614,192	-	3,081,663	25,059,685
Federal	253,255	-	-	2,861,915	139,795	2,940,583	8,017,191
Charges for services	-	135,788	25,344	-	-	-	52,542,546
Interest and rents	-	-	-	3,420	9,624	5,355	242,118
Miscellaneous	-	-	-	-	-	-	25,542
Total revenues	4,693,830	135,788	860,522	4,613,660	1,863,499	6,027,601	88,570,473
Expenditures:							
Current operating:							
General government	-	-	-	-	-	-	124,085
Public safety	-	347,573	-	4,216,235	-	-	4,563,808
Public works	-	-	-	21,699	-	-	52,378,923
Health and welfare	5,944,097	-	-	909,124	-	-	6,853,221
Education	-	-	-	-	4,000,000	-	4,000,000
Parks, recreation, and culture	-	-	957,843	27,122	-	-	984,965
Community development	-	-	-	-	-	-	2,100,897
Capital outlay	-	-	-	-	12,447,105	6,022,246	18,469,351
Total expenditures	5,944,097	347,573	957,843	5,174,180	16,447,105	6,022,246	89,475,250
Excess (deficiency) of revenues over (under) expenditures	(1,250,267)	(211,785)	(97,321)	(560,520)	(14,583,606)	5,355	(904,777)
Other financing sources (uses):							
Transfers in	1,107,990	-	746,648	-	16,544,325	-	18,398,963
Transfers out	-	-	(625,086)	-	-	-	(11,866,711)
Total other financing sources (uses), net	1,107,990	-	121,562	-	16,544,325	-	6,532,252
Net changes in fund balances	(142,277)	(211,785)	24,241	(560,520)	1,960,719	5,355	5,627,475
Fund balances at June 30, 2014	336,599	316,944	(279)	2,632,344	28,589,184	2,179,534	40,296,646
Fund balances at June 30, 2015	\$ 194,322	105,159	23,962	2,071,824	30,549,903	2,184,889	45,924,121

CITY OF NEWPORT NEWS, VIRGINIA
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
Special Revenue Funds
Year ended June 30, 2015

	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:																
Virginia	\$ 15,470,905	15,889,942	15,889,942	—	—	—	—	—	—	—	—	—	—	—	6,202	6,202
Charges for services	—	—	—	—	—	—	—	—	149,000	149,000	113,282	(35,718)	17,910,884	18,400,642	17,636,362	(764,280)
Sale of property	—	—	—	—	17,000	20,000	15,000	(5,000)	—	—	—	—	—	—	—	—
Interest and rents	—	—	—	—	128,787	125,667	157,084	31,417	—	—	—	—	25,240	25,240	69,582	44,342
Miscellaneous	—	—	—	—	213	333	—	(333)	—	—	—	—	—	—	—	—
Total revenues	15,470,905	15,889,942	15,889,942	—	146,000	146,000	172,084	26,084	149,000	149,000	113,282	(35,718)	17,936,124	18,425,882	17,712,146	(713,736)
Expenditures:																
Current:																
General government	—	—	—	—	—	—	—	—	149,000	149,000	124,085	24,915	—	—	—	—
Public works	15,470,905	15,889,942	15,889,942	—	—	—	—	—	—	—	—	—	14,820,552	15,440,301	11,559,583	3,880,718
Community development	—	—	—	—	146,000	146,000	279,254	(133,254)	—	—	—	—	—	—	—	—
Total expenditures	15,470,905	15,889,942	15,889,942	—	146,000	146,000	279,254	(133,254)	149,000	149,000	124,085	24,915	14,820,552	15,440,301	11,559,583	3,880,718
Transfers Out	—	—	—	—	—	—	—	—	—	—	—	—	3,115,572	3,115,572	3,115,572	—
Excess (deficiency) of revenues over (under) expenditures	\$ —	—	—	—	—	—	(107,170)	(107,170)	—	—	(10,803)	(10,803)	—	(129,991)	3,036,991	3,166,982
Fund balances at July 1, 2014			—				1,382,496				183,983				4,151,483	
Fund balances at June 30, 2015		\$ —				\$ 1,275,326				\$ 173,180				\$ 7,188,474		

(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, 2015

	Solid Waste				Wastewater				Totals			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
Revenues:												
Intergovernmental:												
Virginia	\$ 25,000	25,000	27,111	2,111	—	—	—	—	15,495,905	15,914,942	15,923,255	8,313
Charges for services	14,512,500	14,512,500	14,101,978	(410,522)	21,084,000	21,084,000	20,529,792	(554,208)	53,656,384	54,146,142	52,381,414	(1,764,728)
Sale of Property	—	—	—	—	—	—	—	—	17,000	20,000	15,000	(5,000)
Interest and rents	1,500	1,500	49	(1,451)	—	—	(2,996)	(2,996)	155,527	152,407	223,719	71,312
Miscellaneous	15,000	15,000	10,542	(4,458)	—	—	—	—	15,213	15,333	10,542	(4,791)
Total revenues	14,554,000	14,554,000	14,139,680	(414,320)	21,084,000	21,084,000	20,526,796	(557,204)	69,340,029	70,248,824	68,553,930	(1,694,894)
Expenditures:												
Current:												
General government	—	—	—	—	—	—	—	—	149,000	149,000	124,085	24,915
Public works	13,110,800	13,133,909	12,230,301	903,608	14,401,147	14,973,453	12,677,398	2,296,055	57,803,404	59,437,605	52,357,224	7,080,381
Community development	—	—	—	—	—	—	—	—	146,000	146,000	279,254	(133,254)
Total expenditures	13,110,800	13,133,909	12,230,301	903,608	14,401,147	14,973,453	12,677,398	2,296,055	58,098,404	59,732,605	52,760,563	6,972,042
Transfers Out	1,443,200	1,443,200	1,443,200	—	6,682,853	6,682,853	6,682,853	—	8,126,053	8,126,053	8,126,053	—
Excess (deficiency) of revenues over (under) expenditures	\$ —	(23,109)	466,179	489,288	—	(572,306)	1,166,545	1,738,851	3,115,572	2,390,166	7,667,314	5,277,148
Fund balances at June 30, 2014			1,196,975				(672,617)				6,242,320	
Fund balances at June 30, 2015			\$ 1,663,154				\$ 493,928				\$ 13,909,634	

CITY OF NEWPORT NEWS, VIRGINIA

Debt Service Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual

Year ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Intergovernmental - Local	\$ 13,652,959	13,652,959	13,652,959	—
Miscellaneous	—	—	48,429	48,429
Total revenues	<u>13,652,959</u>	<u>13,652,959</u>	<u>13,701,388</u>	<u>48,429</u>
Expenditures:				
Debt service payments	<u>61,712,485</u>	<u>61,712,485</u>	<u>58,185,916</u>	<u>3,526,569</u>
Total expenditures	<u>61,712,485</u>	<u>61,712,485</u>	<u>58,185,916</u>	<u>3,526,569</u>
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(48,059,526)</u>	<u>(48,059,526)</u>	<u>(44,484,528)</u>	<u>3,574,998</u>
Other financing sources:				
Transfers in			<u>44,663,882</u>	
Net changes in fund balances			179,354	
Fund balances at June 30, 2014			<u>1,559,619</u>	
Fund balances at June 30, 2015			\$ <u><u>1,738,973</u></u>	

CITY OF NEWPORT NEWS, VIRGINIA
Combining Statement of Changes in Assets and Liabilities
Agency Funds
Year Ended June 30, 2015

GPWDC	Balance June 30, 2014	Additions	Deductions	Balance June 30, 2015
Assets:				
Cash and cash equivalents	\$ 102,180	3,570,546	3,672,726	–
Accounts receivable	630,821	475,730	385,097	721,454
Total assets	<u>\$ 733,001</u>	<u>4,046,276</u>	<u>4,057,823</u>	<u>721,454</u>
Liabilities:				
Accounts payable	\$ 195,772	2,794,499	2,540,298	449,973
Due to other agencies	537,229	–	265,748	271,481
Total liabilities	<u>\$ 733,001</u>	<u>2,794,499</u>	<u>2,806,046</u>	<u>721,454</u>
 Other Agency Funds				
Assets:				
Cash and cash equivalents	\$ 5,137,709	18,922,947	19,003,007	5,057,649
Accounts receivable	3,300,927	19,205,640	19,832,275	2,674,292
Inventory	3,151	–	367	2,784
Total assets	<u>\$ 8,441,787</u>	<u>38,128,587</u>	<u>38,835,649</u>	<u>7,734,725</u>
Liabilities:				
Accounts payable	\$ 986,624	18,090,675	18,138,001	939,298
Due to other governments	4,753,753	–	421,584	4,332,169
Due to other agencies	2,701,410	2,341,278	2,579,430	2,463,258
Total liabilities	<u>\$ 8,441,787</u>	<u>20,431,953</u>	<u>21,139,015</u>	<u>7,734,725</u>
 Total - Agency Funds				
Assets:				
Cash and cash equivalents	\$ 5,239,889	22,493,493	22,675,733	5,057,649
Accounts receivable	3,931,748	19,681,370	20,217,372	3,395,746
Inventory	3,151	–	367	2,784
Total assets	<u>\$ 9,174,788</u>	<u>42,174,863</u>	<u>42,893,472</u>	<u>8,456,179</u>
Liabilities:				
Accounts payable	\$ 1,182,396	20,885,174	20,678,299	1,389,271
Due to other governments	4,753,753	–	421,584	4,332,169
Due to other agencies	3,238,639	2,341,278	2,845,178	2,734,739
Total liabilities	<u>\$ 9,174,788</u>	<u>23,226,452</u>	<u>23,945,061</u>	<u>8,456,179</u>

CITY OF NEWPORT NEWS, VIRGINIA

Combining Statement of Net Position

Non-Major Component Units

June 30, 2015

Assets	Peninsula Airport Commission	Economic and Industrial Development Authorities	Totals
Current Assets:			
Cash and cash equivalents	\$ 3,549,464	5,028,851	8,578,315
Restricted cash and investments	—	12,036,459	12,036,459
Receivables:			
Accounts	542,866	1,089,435	1,632,301
Loans	181,500	—	181,500
Newport News Capital Fund Revolving Loan Program	—	112,056	112,056
Net investment in direct financing leases	—	80,987	80,987
Inventories	72,319	—	72,319
Other current assets	58,036	934,573	992,609
Total current assets	4,404,185	19,282,361	23,686,546
Restricted cash and cash equivalents	473,702	1,743,316	2,217,018
Restricted investments	—	334	334
Net pension asset	50,305	—	50,305
Receivables:			
Loans	—	1,292,245	1,292,245
Notes	—	3,037,590	3,037,590
Land held for lease or resale	—	30,655,675	30,655,675
Property, plant and equipment:			
Land	6,604,658	—	6,604,658
Construction in progress	339,290	6,352,470	6,691,760
Infrastructure	—	2,543,500	2,543,500
Buildings	—	195,895,590	195,895,590
Improvements	—	14,327,640	14,327,640
Airfield	90,343,447	—	90,343,447
Terminal	73,540,608	—	73,540,608
Trailer park and rental units	1,852,612	—	1,852,612
Machinery and equipment	6,420,826	84,674	6,505,500
Accumulated depreciation	(77,655,977)	(55,151,026)	(132,807,003)
Total assets	106,373,656	220,064,369	326,438,025
Deferred Outflows			
Deferred pension contributions	158,918	—	158,918
Deferred swap	—	1,236,300	1,236,300
Debt refunding	—	6,787,478	6,787,478
Total deferred outflows	158,918	8,023,778	8,182,696
Liabilities			
Current Liabilities:			
Accounts payable	361,644	693,463	1,055,107
Accrued liabilities	425,886	428,773	854,659
Deposits/unearned revenues	28,106	34,638	62,744
Due to Primary Government	—	209,804	209,804
Bonds payable - due within one year	426,460	9,326,289	9,752,749
Total current liabilities	1,242,096	10,692,967	11,935,063
Due to Primary Government	—	9,946,336	9,946,336
Note payable	—	1,500,000	1,500,000
Bonds payable	8,919,466	100,866,778	109,786,244
Other postemployment benefits liability	4,056,235	—	4,056,235
Total liabilities	14,217,797	123,006,081	137,223,878
Deferred Inflows			
Deferred pension investment experience	388,818	—	388,818
Total deferred inflows	388,818	—	388,818
Net Position			
Net investment in capital assets	92,099,538	61,850,737	153,950,275
Restricted for:			
Capital projects	473,702	12,298,187	12,771,889
Capital loans	—	1,481,922	1,481,922
Unrestricted	(647,281)	29,451,220	28,803,939
Total net position	\$ 91,925,959	105,082,066	197,008,025

CITY OF NEWPORT NEWS, VIRGINIA

Combining Statement of Revenues, Expenses and Changes in Net Position

Non-Major Component Units

Year ended June 30, 2015

	Peninsula Airport Commission	Economic and Industrial Development Authorities	Totals
Operating revenues:			
Charges for services	\$ 8,136,967	—	8,136,967
Property rentals	—	9,891,196	9,891,196
Parking contributions	—	179,797	179,797
Land sales	—	238,500	238,500
Intergovernmental-Regional Air Service Enhancement Fund	—	133,194	133,194
Intergovernmental-Parking Authority	—	686,300	686,300
Intergovernmental-Primary Government	—	12,600,381	12,600,381
Total operating revenues	<u>8,136,967</u>	<u>23,729,368</u>	<u>31,866,335</u>
Operating expenses:			
Cost of land sold	—	243,700	243,700
Personal services	3,766,621	666,295	4,432,916
Contractual services	1,804,095	5,731,589	7,535,684
Materials and supplies	738,252	481,207	1,219,459
Depreciation and amortization	7,161,995	5,028,617	12,190,612
Real estate commissions	—	903	903
Rental expenses	—	1,482,171	1,482,171
Miscellaneous	167,756	476,722	644,478
Total operating expenses	<u>13,638,719</u>	<u>14,111,204</u>	<u>27,749,923</u>
Operating income (loss)	<u>(5,501,752)</u>	<u>9,618,164</u>	<u>4,116,412</u>
Nonoperating revenues (expenses):			
Interest revenue	4,752	167,708	172,460
Bond and admin fee income	—	245,601	245,601
Interest expense	(451,543)	(5,258,672)	(5,710,215)
Letter of credit and trustee fees	—	(95,092)	(95,092)
Other revenues	—	752,405	752,405
Nonexchange financial guarantee	(62,406)	—	(62,406)
Nonoperating air service development expense	(1,076,311)	—	(1,076,311)
OPEB expense	(401,961)	—	(401,961)
Loss on retirement of assets	—	(139)	(139)
Nonoperating expenses, net	<u>(1,987,469)</u>	<u>(4,188,189)</u>	<u>(6,175,658)</u>
Capital contributions, net	<u>6,341,393</u>	<u>—</u>	<u>6,341,393</u>
Change in net position	<u>(1,147,828)</u>	<u>5,429,975</u>	<u>4,282,147</u>
Net position at June 30, 2014 - (*Restated)	<u>93,073,787</u>	<u>99,652,091</u>	<u>192,725,878</u>
Net position at June 30, 2015	<u>\$ 91,925,959</u>	<u>105,082,066</u>	<u>197,008,025</u>

*Balances for PAC were restated to reflect implementation of GASB 68 and GASB 71.

CITY OF NEWPORT NEWS, VIRGINIA

Statement of Cash Flows
Non-Major Component Units
Year ended June 30, 2015

	Peninsula Airport Commission	Economic and Industrial Development Authorities	Totals
Cash flows from operating activities:			
Receipts from customers	\$ 8,039,929	22,882,744	30,922,673
Receipts from land sales and new loans, net of settlement charges	-	(632,941)	(632,941)
Payments to suppliers	(3,443,373)	(12,713,013)	(16,156,386)
Payments to employees	(3,766,621)	(666,295)	(4,432,916)
Net cash provided by operating activities	<u>829,935</u>	<u>8,870,495</u>	<u>9,700,430</u>
Cash flows from noncapital financing activities:			
Nonoperating exchange financial guarantee payments	(4,516,924)	-	(4,516,924)
Nonoperating air service development expense	(1,076,311)	-	(1,076,311)
Net cash used in capital and related financing activities	<u>(5,593,235)</u>	<u>-</u>	<u>(5,593,235)</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(4,637,352)	(13,189,921)	(17,827,273)
Capital contributions, net	7,404,761	-	7,404,761
Repayment and retirement of industrial revenue bonds and notes payable	(401,312)	(8,531,344)	(8,932,656)
Proceeds from issuance of debt	-	12,700,000	12,700,000
Proceeds from Primary Government	-	283,356	283,356
Payment to Primary Government	-	(283,356)	(283,356)
Interest paid	(451,543)	(4,936,757)	(5,388,300)
Other expenses, net	314	902,775	903,089
Net cash provided by (used in) capital and related financing activities	<u>1,914,868</u>	<u>(13,055,247)</u>	<u>(11,140,379)</u>
Cash flows from investing activities:			
Net investment in direct financing leases	-	959,917	959,917
Interest received	4,752	167,847	172,599
Increase in restricted investments, net	2,158,649	-	2,158,649
Net cash provided by investing activities	<u>2,163,401</u>	<u>1,127,764</u>	<u>3,291,165</u>
Increase (decrease) in cash and cash equivalents	<u>(685,031)</u>	<u>(3,056,988)</u>	<u>1,851,216</u>
Cash, cash equivalents and restricted cash at beginning of year	<u>4,234,495</u>	<u>21,865,614</u>	<u>26,100,109</u>
Cash, cash equivalents and restricted cash at end of year	\$ <u>3,549,464</u>	<u>18,808,626</u>	<u>27,951,325</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (5,501,752)	9,618,164	4,116,412
Adjustment to reconcile operating income (loss) to cash provided by operating activities:			
Depreciation	7,161,995	5,028,617	12,190,612
OPEB expense paid	(98,057)	-	(98,057)
Changes in assets and liabilities:			
Changes in land inventory	-	(3,958,989)	(3,958,989)
Mortgages receivable	-	(871,441)	(871,441)
Other receivables	(97,038)	(498,559)	(595,597)
Inventories	7,308	-	7,308
Prepaid assets	615,077	-	615,077
Accounts payable and accrued liabilities	(1,124,278)	(337,732)	(1,462,010)
Unearned revenues	(26,797)	(109,565)	(136,362)
Decrease in net pension asset/liability and related deferred inflows/outflows of resources	<u>(106,523)</u>	<u>-</u>	<u>-</u>
Net cash provided by operating activities	\$ <u>829,935</u>	<u>8,870,495</u>	<u>9,806,953</u>
Supplemental disclosure:			
Noncash investing and financing activities:			
Contributed capital funded by accounts receivable	\$ 181,500	-	181,500

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CITY OF NEWPORT NEWS, VIRGINIA
Trust Funds
Combining Statement of Fiduciary Net Position
June 30, 2015

	<u>Line of Duty</u>	<u>Pension</u>	<u>OPEB</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 43,999	\$ 11,056,845	\$ 8,336,900	\$ 19,437,744
Cash and cash equivalents with trustee	-	20,672,363	12,719,435	33,391,798
Investments, at market value:				
Corporate and government bonds	-	121,634,518	-	121,634,518
Domestic stocks	-	439,797,347	-	439,797,347
Domestic mutual funds	-	-	5,807,017	5,807,017
International stocks	-	104,191,575	-	104,191,575
International mutual funds	-	31,646,851	2,815,413	34,462,264
Private equities	-	16,514,990	-	16,514,990
Real estate and timber	-	106,755,277	-	106,755,277
Receivable from other components	-	678,335	-	678,335
Sales receivable	-	2,565,587	68,259	2,633,846
Claim Fluctuation Reserve (Anthem):	-	-	1,750,072	1,750,072
Total assets	<u>43,999</u>	<u>855,513,688</u>	<u>31,497,096</u>	<u>887,054,783</u>
Liabilities				
Accounts payable	85,092	185,294	1,929,671	2,200,057
Payable to City	-	1,265,851	2,108,420	3,374,271
Accrued vacation	-	42,277	-	42,277
Purchases payable	-	3,380,031	-	3,380,031
Total liabilities	<u>85,092</u>	<u>4,873,453</u>	<u>4,038,091</u>	<u>8,996,636</u>
Net Position				
Assets held in trust:				
Postemployment healthcare benefits	-	-	27,459,005	27,459,005
Employees' retirement	-	850,640,235	-	850,640,235
Unassigned	(41,093)	-	-	(41,093)
Total net position	<u>\$ (41,093)</u>	<u>\$ 850,640,235</u>	<u>\$ 27,459,005</u>	<u>\$ 878,058,147</u>

CITY OF NEWPORT NEWS, VIRGINIA
Trust Funds
Combining Statement of Changes in Fiduciary Net Position
Year ended June 30, 2015

	<u>Line of Duty</u>	<u>Pension</u>	<u>OPEB</u>	<u>Total</u>
Additions:				
Employer Contributions:				
City General Fund	\$ 250,000	\$ 23,569,764	\$ 8,992,000	\$ 32,811,764
Waterworks Fund	-	2,933,669	1,248,000	4,181,669
School Operating Fund	-	6,754,842	-	6,754,842
Employee Contributions:				-
City General Fund	-	5,057,988	-	5,057,988
Waterworks Fund	-	645,463	-	645,463
School Operating Fund	-	739,633	-	739,633
Other Contributions:				-
Income from Leave Exchange	-	150,262	-	150,262
Employee Buy-back	-	144,802	-	144,802
Total contributions	<u>250,000</u>	<u>39,996,423</u>	<u>10,240,000</u>	<u>50,486,423</u>
Investment income:				
Net depreciation - bonds	-	(2,715,966)	132,050	(2,583,916)
Net appreciation - stocks	-	13,683,051	-	13,683,051
Interest	421	3,847,026	6,108	3,853,555
Dividends	-	10,182,185	143,820	10,326,005
Real estate operating income, net	-	5,998,510	-	5,998,510
Commission recapture	-	64,270	-	64,270
Other investment income	-	-	4,232	4,232
Total investment loss	<u>421</u>	<u>31,059,076</u>	<u>286,210</u>	<u>31,345,707</u>
Less investment expenses:	-	(4,864,414)	(59,479)	(4,923,893)
Net investment gain	<u>421</u>	<u>26,194,662</u>	<u>226,731</u>	<u>26,421,814</u>
Total additions	<u>250,421</u>	<u>66,191,085</u>	<u>10,466,731</u>	<u>76,908,237</u>
Deductions:				
Benefits paid to participants	283,494	69,495,962	8,317,439	78,096,895
Refunds of member contributions	-	32,016	-	32,016
Administrative expenses	<u>8,020</u>	<u>1,003,673</u>	<u>95,901</u>	<u>1,107,594</u>
Total deductions	<u>291,514</u>	<u>70,531,651</u>	<u>8,413,340</u>	<u>79,236,505</u>
Change in net position	<u>(41,093)</u>	<u>(4,340,566)</u>	<u>2,053,391</u>	<u>(2,328,268)</u>
Net position held in trust for pension benefits at June 30, 2014	-	854,980,801	25,405,614	880,386,415
Net position held in trust for pension benefits at June 30, 2015	<u>\$ (41,093)</u>	<u>\$ 850,640,235</u>	<u>\$ 27,459,005</u>	<u>\$ 878,058,147</u>

See accompanying notes to basic financial statements

STATISTICAL SECTION

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

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

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

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

	Fiscal Year									
	2015**	2014	2013	2012	2011	2010	2009	2008	2007	2006
Governmental activities:										
Net investment in capital assets	\$ 362,541,053	\$ 344,253,405	\$ 331,677,129	\$ 311,394,219	\$ 290,455,293	\$ 251,724,446	\$ 228,275,222	\$ 223,305,188	\$ 190,926,170	\$ 175,306,479
Restricted	15,441,843	11,105,034	9,396,408	10,732,493	1,182,184	1,034,412	1,517,751	1,853,588	2,234,557	1,521,091
Unrestricted (deficit)	(201,104,209)	(169,541,405)	(165,087,764)	(141,023,569)	(104,156,300)	(59,047,595)	(46,605,508)	(37,333,216)	(3,441,801)	14,603,368
Total governmental activities net position	<u>\$ 176,878,687</u>	<u>\$ 185,817,034</u>	<u>\$ 175,985,773</u>	<u>\$ 181,103,143</u>	<u>\$ 187,481,177</u>	<u>\$ 193,711,263</u>	<u>\$ 183,187,465</u>	<u>\$ 187,825,560</u>	<u>\$ 189,718,926</u>	<u>\$ 191,430,938</u>
Business-type activities:										
Net investment in capital assets	\$ 284,602,082	\$ 243,541,418	\$ 232,313,434	\$ 257,644,908	\$ 251,759,910	\$ 238,441,047	\$ 276,666,222	\$ 277,770,877	\$ 269,150,510	\$ 264,939,418
Restricted	-	28,007,541	30,427,669	-	-	-	-	-	-	225,000
Unrestricted	1,951,106	27,165,354	21,103,436	19,485,138	23,521,844	31,828,423	41,643,472	29,287,711	24,572,102	18,150,853
Total business-type activities net position *	<u>\$ 286,553,188</u>	<u>\$ 298,714,313</u>	<u>\$ 283,844,539</u>	<u>\$ 277,130,046</u>	<u>\$ 275,281,754</u>	<u>\$ 270,269,470</u>	<u>\$ 318,309,694</u>	<u>\$ 307,058,588</u>	<u>\$ 293,722,612</u>	<u>\$ 283,315,271</u>
Primary Government:										
Net investment in capital assets	\$ 647,143,135	\$ 587,794,823	\$ 563,990,563	\$ 569,039,127	\$ 542,215,203	\$ 490,165,493	\$ 504,941,444	\$ 501,076,065	\$ 460,076,680	\$ 440,245,897
Restricted	15,441,843	39,112,575	39,824,077	10,732,493	1,182,184	1,034,412	1,517,751	1,853,588	2,234,557	1,746,091
Unrestricted (deficit)	(199,153,103)	(142,376,051)	(143,984,328)	(121,538,431)	(80,634,456)	(27,219,172)	(4,962,036)	(8,045,505)	21,130,301	32,754,221
Total Primary Government net position	<u>\$ 463,431,875</u>	<u>\$ 484,531,347</u>	<u>\$ 459,830,312</u>	<u>\$ 458,233,189</u>	<u>\$ 462,762,931</u>	<u>\$ 463,980,733</u>	<u>\$ 501,497,159</u>	<u>\$ 494,884,148</u>	<u>\$ 483,441,538</u>	<u>\$ 474,746,209</u>

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

** Implementation of GASB 68 and 71.

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

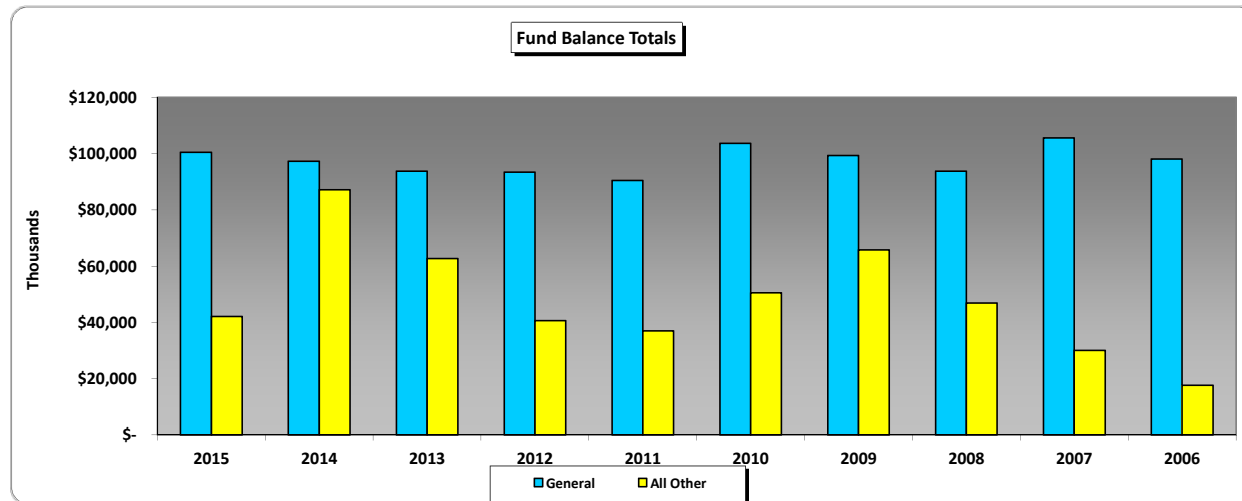
	Fiscal Year									
	2015**	2014	2013	2012	2011	2010	2009	2008	2007	2006
Program revenues										
Governmental activities:										
Charges for services:										
Public works	\$ 52,316,287	\$ 45,729,958	\$ 40,889,684	\$ 37,095,768	\$ 36,800,694	\$ 37,744,481	\$ 34,526,097	\$ 30,513,564	\$ 28,057,816	\$ 26,160,999
All others	29,469,594	27,341,075	27,279,880	26,264,076	25,854,740	25,805,742	26,406,149	25,760,135	25,941,895	24,758,610
Operating grants and contributions	41,537,105	41,230,144	39,249,011	41,429,302	44,986,270	42,704,554	44,966,813	45,835,149	44,078,633	43,861,201
Capital grants and contributions	9,852,965	8,261,793	6,482,329	4,966,923	3,156,118	4,740,959	1,962,681	2,140,343	2,771,153	2,970,950
Total governmental activities program revenues	133,175,951	122,562,970	113,900,904	109,756,069	110,797,822	110,995,736	107,861,740	104,249,191	100,849,497	97,751,760
Business-type activities:										
Charges for services	88,819,826	85,580,834	76,099,474	73,337,822	74,497,015	72,719,343	73,817,176	76,003,756	71,908,595	72,397,545
Operating/Capital grants and contributions	2,434,032	2,327,993	2,811,556	3,475,356	3,677,892	5,381,669	8,332,219	3,782,758	3,530,826	3,753,852
Total business-type activities program revenues	91,253,858	87,908,827	78,911,030	76,813,178	78,174,907	78,101,012	82,149,395	79,786,514	75,439,421	76,151,397
Total Primary Government program revenues	224,429,809	210,471,797	192,811,934	186,569,247	188,972,729	189,096,748	190,011,135	184,035,705	176,288,918	173,903,157
Expenses										
Governmental activities:										
General government	95,389,412	98,295,537	85,544,610	53,687,583	41,072,050	56,496,116	67,006,531	54,904,104	54,577,481	64,991,195
Judicial administration	6,705,580	6,801,427	6,779,007	7,796,103	7,675,395	7,061,964	7,042,239	7,269,926	6,919,927	6,397,049
Public safety	112,771,624	116,029,097	113,305,100	131,544,707	129,661,963	119,642,698	120,240,436	119,019,088	112,089,213	100,481,015
Public works	70,465,462	72,201,809	70,293,521	76,076,207	77,288,468	71,950,527	70,635,586	70,571,291	66,258,073	63,695,077
Health and welfare	39,218,507	40,894,433	42,283,290	49,131,969	54,114,507	52,805,082	56,468,567	58,563,411	56,061,131	53,362,500
Education	147,634,659	119,743,781	116,592,925	117,566,704	118,376,318	119,956,981	116,528,527	114,275,568	117,460,703	104,054,463
Parks, recreation and culture	31,522,216	32,804,044	34,050,686	34,690,901	34,385,246	32,614,571	34,409,781	36,183,209	32,557,355	29,934,662
Community development	7,371,121	9,764,564	11,194,312	8,743,779	12,678,704	10,369,291	8,832,458	10,623,457	8,700,790	11,168,279
Interest and other fiscal charges	20,497,054	20,607,931	22,927,201	25,545,336	30,258,101	23,923,629	25,487,370	24,118,788	21,149,858	17,169,976
Total governmental activities expenses	531,575,635	517,142,623	502,970,652	504,783,289	505,510,752	494,820,859	506,651,495	495,528,842	475,774,531	451,254,216
Business-type activities:										
Public utilities	64,775,097	62,911,823	62,502,189	65,287,629	63,397,723	64,078,572	62,684,897	59,439,084	54,357,032	51,394,362
Parking Authority *	-	-	-	-	-	-	-	-	-	199,461
Total business-type activities expenses	64,775,097	62,911,823	62,502,189	65,287,629	63,397,723	64,078,572	62,684,897	59,439,084	54,357,032	51,593,823
Total primary government expenses	596,350,732	580,054,446	565,472,841	570,070,918	568,908,475	558,899,431	569,336,392	554,967,926	530,131,563	502,848,039
Net Revenue/(Expenses)										
Governmental activities	(398,399,684)	(394,579,653)	(389,069,748)	(395,027,220)	(394,712,930)	(383,825,123)	(398,789,755)	(391,279,651)	(374,925,034)	(353,502,456)
Business-type activities	26,478,761	24,997,004	16,408,841	11,525,549	14,777,184	14,022,440	19,464,498	20,347,430	21,082,389	24,557,574
Total primary government	(371,920,923)	(369,582,649)	(372,660,907)	(383,501,671)	(379,935,746)	(369,802,683)	(379,325,257)	(370,932,221)	(353,842,645)	(328,944,882)
General revenues and Other Changes in Net Assets										
Governmental activities:										
Property taxes	250,847,834	246,119,180	229,811,554	229,194,920	230,980,102	236,993,370	233,735,214	219,867,771	207,827,846	187,912,894
Other taxes	100,362,448	96,418,092	96,537,561	91,744,426	89,063,340	88,595,948	89,624,744	93,161,528	90,412,582	89,170,125
Unrestricted grants and contributions	43,235,474	42,216,776	41,481,654	47,106,347	48,209,536	48,630,187	48,993,988	49,350,467	48,308,625	45,473,865
Investment earnings	2,438,265	2,293,272	2,328,310	2,270,634	2,395,569	2,663,324	3,596,647	6,169,470	6,465,913	5,007,664
Miscellaneous	10,542,858	9,358,360	3,902,299	8,441,859	7,834,297	7,466,092	8,201,067	10,837,049	11,087,567	11,587,686
Transfers	9,500,000	9,391,000	9,891,000	9,891,000	10,000,000	10,000,000	10,000,000	10,000,000	9,110,489	9,134,000
Total governmental activities	416,926,879	405,796,680	383,952,378	388,649,186	388,482,844	394,348,921	394,151,660	389,386,285	373,213,022	348,286,234
Business-type activities:										
Investment earnings	167,947	153,241	196,652	213,743	235,100	549,737	1,940,465	2,988,546	1,926,084	1,240,697
Extraordinary loss	-	-	-	-	-	(52,612,401)	-	-	-	-
Miscellaneous	962,131	-	-	-	-	-	-	-	-	-
Transfers	(9,500,000)	(9,391,000)	(9,891,000)	(9,891,000)	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)	(9,110,489)	(9,134,000)
Total business-type activities	(8,369,922)	(9,237,759)	(9,694,348)	(9,677,257)	(9,764,900)	(62,062,664)	(8,059,535)	(7,011,454)	(7,184,405)	(7,893,303)
Total Primary Government	408,556,957	396,558,921	374,258,030	378,971,929	378,717,944	332,286,257	386,092,125	382,374,831	366,028,617	340,392,931
Changes in Net Position										
Governmental activities	18,527,195	11,217,027	(5,117,370)	(6,378,034)	(6,230,086)	10,523,798	(4,638,095)	(1,893,366)	(1,712,012)	(5,216,222)
Business-type activities	18,108,839	15,759,245	6,714,493	1,848,292	5,012,284	(48,040,224)	11,404,963	13,335,976	13,897,984	16,664,271
Total Primary Government	\$ 36,636,034	\$ 26,976,272	\$ 1,597,123	\$ (4,529,742)	\$ (1,217,802)	\$ (37,516,426)	\$ 6,766,868	\$ 11,442,610	\$ 12,185,972	\$ 11,448,049

Note: * Effective fiscal year 2007: Parking Authority is no longer reported as a business-type activity; they are now reported under the Economic and Industrial Development Authorities (E/IDA).
** Implementation of GASB 68 and 71.

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

	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
General fund										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,305,988	\$ 5,194,291	\$ 6,009,589	\$ 6,791,817	\$ 6,356,403
Unreserved	-	-	-	-	-	97,366,646	94,164,397	87,703,448	98,820,178	91,686,630
Nonspendable	11,541,956	11,370,286	12,862,783	15,412,699	15,711,917	-	-	-	-	-
Restricted	133,554	90,649	563,863	2,013,986	2,011,665	-	-	-	-	-
Assigned	39,089,271	38,415,687	34,939,767	34,656,608	31,290,680	-	-	-	-	-
Unassigned	49,692,460	47,366,583	45,353,317	41,364,679	41,390,600	-	-	-	-	-
Total general fund	\$ 100,457,241	\$ 97,243,205	\$ 93,719,730	\$ 93,447,972	\$ 90,404,862	\$ 103,672,634	\$ 99,358,688	\$ 93,713,037	\$ 105,611,995	\$ 98,043,033
All other governmental funds										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,170,639	\$ 11,977,232	\$ 14,741,065	\$ 12,333,840	\$ 21,873,135
Unreserved, reported in:										
Special revenue fund	-	-	-	-	-	12,372,862	15,126,615	10,474,287	9,267,465	8,845,238
Debt service fund	-	-	-	-	-	6,511,346	1,258,059	2,695,240	1,306,632	319,453
Capital project fund	-	-	-	-	-	13,290,298	10,927,505	11,555,870	9,492,210	2,749,848
Bond fund	-	-	-	-	-	1,144,480	26,477,781	7,393,868	(2,354,461)	(16,143,636)
Restricted	30,414,816	56,269,407	32,442,547	24,773,693	28,210,329	-	-	-	-	-
Committed	32,354,805	30,841,880	30,148,309	32,951,026	40,772,110	-	-	-	-	-
Assigned	-	-	92,000	-	30,000	-	-	-	-	-
Unassigned	(20,674,947)	-	-	(17,129,925)	(32,086,837)	-	-	-	-	-
Total all other governmental funds	\$ 42,094,674	\$ 87,111,287	\$ 62,682,856	\$ 40,594,794	\$ 36,925,602	\$ 50,489,625	\$ 65,767,192	\$ 46,860,330	\$ 30,045,686	\$ 17,644,038

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									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Revenues										
General property taxes	\$248,297	\$245,531	\$228,025	\$229,353	\$230,860	\$236,184	\$233,632	\$219,316	\$208,128	\$189,477
Other local taxes	100,362	96,418	96,538	91,744	89,063	88,596	89,625	93,162	90,413	89,170
Licenses and permits	3,866	3,433	2,803	3,645	3,372	2,846	3,170	3,672	3,315	3,487
Fines and forfeitures	2,247	2,599	2,984	2,697	2,332	2,213	1,981	1,881	1,826	2,079
Interest and rents	2,425	2,285	2,322	2,264	2,391	2,653	3,579	6,147	6,437	4,987
Charges for services	73,593	64,421	59,179	54,895	54,057	55,523	51,003	46,403	44,484	41,289
Recovered costs	5,946	6,051	6,007	5,768	6,267	5,814	7,948	8,718	7,690	7,551
Intergovernmental	92,649	90,606	86,344	93,076	94,980	92,883	95,048	96,745	94,477	90,199
Miscellaneous	4,348	3,596	3,810	3,034	3,476	3,348	3,821	4,964	5,411	6,714
Total revenues	533,733	514,940	488,012	486,476	486,798	490,060	489,807	481,008	462,181	434,953
Expenditures										
General government	83,730	77,930	76,785	50,109	49,331	51,254	51,921	49,368	48,637	57,389
Judicial administration	6,383	6,129	5,861	6,733	6,592	6,236	6,148	6,218	5,910	5,517
Public safety	111,415	107,104	100,419	116,183	114,075	108,877	108,467	105,008	99,472	90,508
Public works	61,926	59,511	55,527	60,806	62,152	58,764	57,178	56,174	51,798	49,915
Health and welfare	40,244	39,113	38,807	44,654	48,918	49,309	52,154	52,892	50,487	48,989
Education	140,727	117,890	119,362	123,007	118,262	119,581	119,088	121,770	121,050	104,848
Parks recreation culture	27,984	26,637	26,829	27,421	26,923	25,976	27,082	28,174	26,384	24,412
Community development	6,990	8,811	9,778	7,429	10,852	8,959	7,439	8,899	7,140	9,573
Debt service:										
Principal	38,687	38,295	35,123	36,792	33,675	33,444	34,422	35,742	31,333	31,156
Interest	19,499	21,690	22,426	25,424	28,100	24,356	26,054	24,792	21,861	17,281
Capital outlay	47,865	45,878	38,271	37,883	27,791	27,186	21,858	33,615	37,535	52,626
Bond issuance cost	-	-	-	-	-	-	-	-	370	475
Total expenditures	585,450	548,988	529,188	536,441	526,671	513,942	511,811	522,651	501,977	492,689
Deficiency of revenues										
Under expenditures	(51,718)	(34,048)	(41,176)	(49,965)	(39,873)	(23,882)	(22,004)	(41,643)	(39,796)	(57,736)
Other Financing sources (Uses)										
Transfer In	73,313	69,806	64,854	63,980	87,189	69,587	66,217	78,707	63,120	51,963
Transfer Out	(63,398)	(60,415)	(54,963)	(54,089)	(77,189)	(59,587)	(56,217)	(68,707)	(54,010)	(42,829)
Payment to refund bonds	-	(64,867)	-	(76,685)	-	-	(136)	-	(22,380)	(30,533)
Premium on refunded bonds	-	7,464	-	7,756	-	-	663	1,716	3,666	2,131
Refund bonds proceeds	-	56,115	-	69,335	-	-	481	-	20,370	28,020
Bond and note proceeds	-	45,000	51,905	42,121	3,041	2,918	35,549	34,843	49,001	37,873
Premium on bonds issuance	-	8,897	5,698	4,259	-	-	-	-	-	985
Contribution to PAC	-	-	(3,958)	-	-	-	-	-	-	-
Total other financing sources (uses), net	9,915	62,000	63,536	56,677	13,041	12,918	46,557	46,559	59,767	47,610
Net change in fund balance	(\$41,803)	\$27,952	\$22,360	\$6,712	(\$26,832)	(\$10,964)	\$24,553	\$4,916	\$19,971	(\$10,126)
Debt service as a percentage of noncapital expenditures *	10.8%	11.9%	11.7%	12.5%	12.4%	11.7%	12.3%	12.4%	11.5%	11.0%

*Corrected capitalized expenditure amounts that are used to determine debt service as a percentage of noncapital expenditures for fiscal years 2006 thru 2013.

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

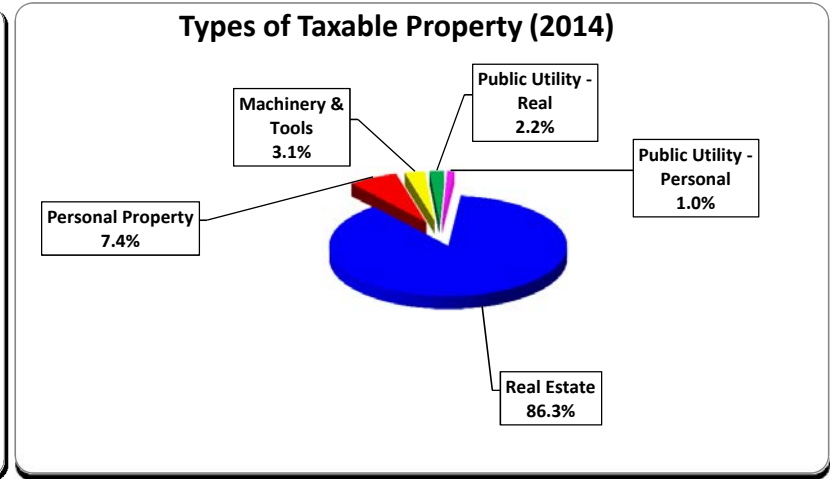
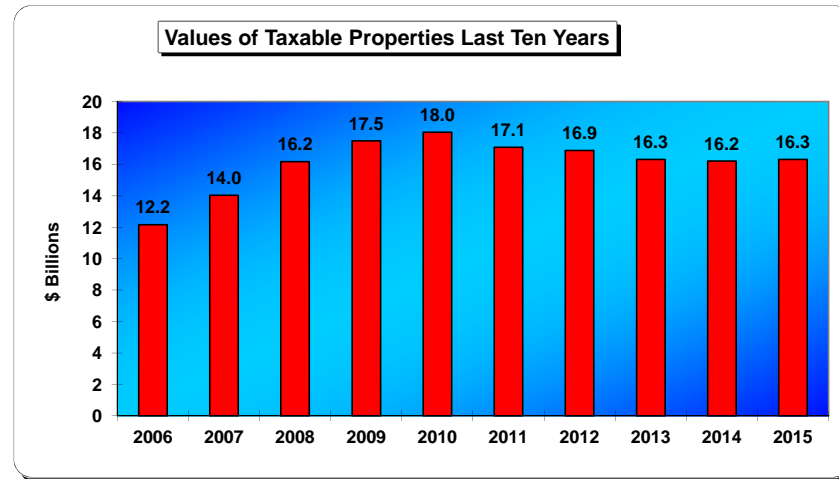
	Fiscal Year										% Change 2006-2015
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	
Property tax	\$250,847,834	\$246,119,180	\$229,811,554	\$229,194,920	\$230,980,102	\$236,183,979	\$233,631,532	\$219,315,976	\$208,128,176	\$189,477,417	32.4%
E911 service	722,381	637,060	596,242	699,378	729,711	737,734	708,725	571,027	1,078,375	2,750,556	-73.7%
Telecom sales	11,679,829	11,697,528	11,992,112	11,681,054	12,321,643	12,018,133	12,416,819	13,177,014	4,772,796	-	67.9%
Sales tax	23,390,029	22,426,753	22,920,353	22,022,527	21,206,724	20,862,730	21,930,591	23,572,320	23,276,742	22,432,446	4.3%
Utility tax	6,312,731	6,279,595	6,262,714	5,891,989	6,511,120	6,321,381	6,137,436	6,112,238	8,017,460	9,254,101	-31.8%
Cellular telephone tax	-	-	-	-	-	-	-	-	2,138,607	3,117,614	0.0%
Consumption tax	714,814	709,174	700,021	653,430	674,265	776,672	728,656	704,570	695,383	774,586	-7.7%
Business license tax	16,360,314	15,750,751	16,200,207	16,109,141	15,115,176	15,266,938	14,676,421	15,116,393	14,770,199	14,701,673	11.3%
Rental car tax	1,119,583	1,041,657	1,151,221	1,229,911	1,044,775	1,021,610	1,058,659	996,093	966,780	932,481	20.1%
Franchise license tax	-	-	-	-	-	-	-	-	890,920	1,732,167	0.0%
Cable television tax	-	-	-	-	-	-	-	-	1,225,349	2,108,165	0.0%
Motor vehicle license tax	4,009,795	4,103,933	3,876,035	3,917,451	3,880,996	3,922,803	3,905,814	3,531,053	3,578,087	3,585,645	11.8%
Bank stock tax	642,977	675,657	666,072	847,745	957,902	1,015,597	727,678	588,882	584,773	600,317	7.1%
Recordation and wills tax	1,340,624	1,265,779	1,370,840	1,407,159	1,065,889	1,263,938	1,461,537	2,219,287	2,120,046	2,535,995	-47.1%
Tobacco tax	4,949,954	5,102,091	5,228,287	4,799,234	4,269,564	4,160,343	4,119,169	4,205,798	4,406,514	4,622,565	7.1%
Hotel and motel room tax	4,013,332	3,178,730	3,008,260	3,191,992	3,064,515	2,969,053	3,130,281	3,454,926	3,386,331	2,802,362	43.2%
Restaurant food tax	24,136,927	22,873,051	22,082,728	18,835,979	17,767,348	17,765,937	18,074,235	18,348,254	17,943,384	16,649,811	45.0%
Amusement tax	872,557	665,301	482,469	457,436	453,712	493,079	548,722	563,673	560,836	569,643	53.2%
Tourism zone tax	96,601	11,032	-	-	-	-	-	-	-	-	100.0%
Total Taxes	\$351,210,282	\$342,537,272	\$326,349,115	\$320,939,346	\$320,043,442	\$324,779,927	\$323,256,275	\$312,477,504	\$298,540,758	\$278,647,544	26.0%

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

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

Fiscal Year	Real Estate		Personal Property		Machinery and Tools		Public Utility		Less: Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value					
							Real Estate	Personal Property									
2006	\$	12,887,570	\$	1,155,202	\$	343,770	\$	186,890	\$	117,131	\$	(2,538,300)	\$	12,152,263	1.59	\$	14,690,563
2007		15,141,893		1,161,864		352,403		180,706		92,112		(2,901,608)		14,027,370	1.55		16,928,978
2008		17,390,981		1,233,279		364,010		211,388		136,000		(3,157,425)		16,178,233	1.53		19,335,658
2009		19,011,429		1,195,193		397,899		250,995		163,492		(3,530,295)		17,488,713	1.51		21,019,008
2010		19,762,256		1,154,011		419,441		293,307		172,545		(3,753,027)		18,048,533	1.37		21,801,560
2011		18,600,158		1,165,494		438,747		326,889		173,108		(3,614,365)		17,090,031	1.40		20,704,396
2012		18,342,224		1,186,515		468,330		339,790		163,940		(3,622,298)		16,878,501	1.41		20,500,799
2013		17,744,690		1,221,798		486,090		333,266		163,292		(3,641,733)		16,307,403	1.45		19,949,136
2014		17,768,798		1,248,199		507,497		353,179		156,714		(3,826,649)		16,207,738	1.41		20,034,387
2015		17,979,237		1,263,012		531,235		352,226		155,737		(3,962,290)		16,319,157	1.42		20,281,447

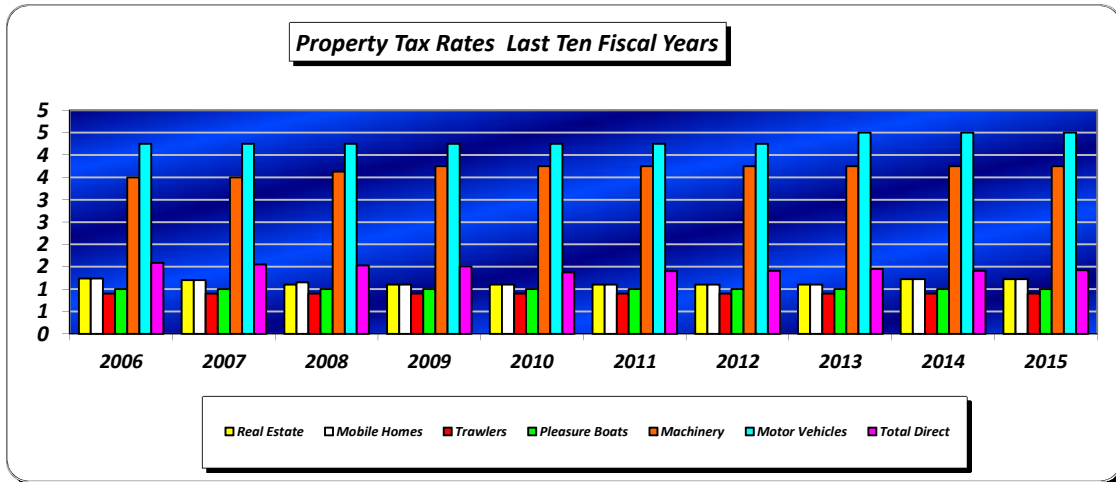
Source: City of Newport News Real Estate Assessors Office



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

City Direct Rates										
Fiscal Year	Real Estate	Mobile Homes	Trawlers	Pleasure Boats	Machinery & Tools	Motor Vehicles	Total Direct Rate			
2006	\$ 1.24	\$ 1.24	\$ 0.90	\$ 1.00	\$ 3.50	\$ 4.25	\$ 1.59			
2007	1.20	1.20	0.90	1.00	3.50	4.25	1.55			
2008	1.10	1.15	0.90	1.00	3.63	4.25	1.53			
2009	1.10	1.1	0.90	1.00	3.75	4.25	1.51			
2010	1.10	1.10	0.90	1.00	3.75	4.25	1.37			
2011	1.10	1.10	0.90	1.00	3.75	4.25	1.40			
2012	1.10	1.10	0.90	1.00	3.75	4.25	1.41			
2013	1.10	1.10	0.90	1.00	3.75	4.50	1.45			
2014	1.22	1.22	0.90	1.00	3.75	4.50	1.41			
2015	1.22	1.22	0.90	1.00	3.75	4.50	1.42			

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



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

	2015		2006	
	Taxes Due	Percentage	Taxes Due	Percentage
	based on Assessed Value	of Taxes Due	based on Assessed Value	of Taxes Due
Huntington Ingalls Incorporated *1	\$20,086	8.03%	\$11,872	7.45%
Canon Virginia Inc *2	4,888	1.95%	1,457	0.91%
The Mariners Museum (Riverside Hospital)	2,735	1.09%	1,173	0.74%
Virginia Electric & Power Company *5	2,720	1.09%	1,373	0.86%
Continental Automotive Systems US Inc *7	1,792	0.72%	-	-
PR Patrick Henry LLC *6	1,689	0.68%	1,241	0.78%
Verizon Virginia Inc	1,277	0.51%	1,041	0.65%
Dominion Terminal Associates *3	1,248	0.50%	963	0.60%
Kinder Morgan Operating LP "C"	1,082	0.43%	471	0.30%
Virginia Natural Gas Inc	921	0.37%	369	0.23%
Inland Western Newport News Jefferson LLC *9	814	0.33%	-	-
Patrick Henry Hospital (Warwick Forest)	550	0.22%	-	-
Bottling Group LLC *8	528	0.21%	266	0.17%
Oyster Point Residential LLC	469	0.19%	-	-
Cox Communications Hampton Roads LLC *10	434	0.17%	291	0.18%
Liebherr Mining & Construction Inc *11	431	0.17%	-	-
CSX Transportation Inc	429	0.17%	305	0.19%
Ferguson Enterprises Corp	422	0.17%	267	0.17%
Meridian Parkside Apartments LLC	401	0.16%	-	-
Radius Apartments	394	0.16%	-	-
Harbours LLC *4	-	-	343	0.22%
Siemens - Bendix Automotive	-	-	1,652	1.04%
Shorewood Packaging Corp Of Va	-	-	602	0.38%
Chesapeake Investors LLC	-	-	278	0.17%
Newport-Oxford Associates Ltd	-	-	357	0.22%
Inland Southeast Denbigh Village	-	-	272	0.17%
United Dominion Realty Trust	-	-	477	0.30%
Total	\$43,310	17.31%	\$25,070	15.73%

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

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

*1 Previously Northrup Grumman Shipbuilding Inc and previously Newport News Shipbuilding and Dry Dock Company

*2 Previously Canon USA Inc

*3 Previously Peninsula Port Authority - Dominion Terminal Associates

*4 Previously Harbours Associates

*5 Previously Dominion VA Power & before that, Virginia Electric & Power Company

*6 Previously Crown American Financing

*7 Previously Siemens Financial Services

*8 Previously Pepsi-Cola Bottling Group

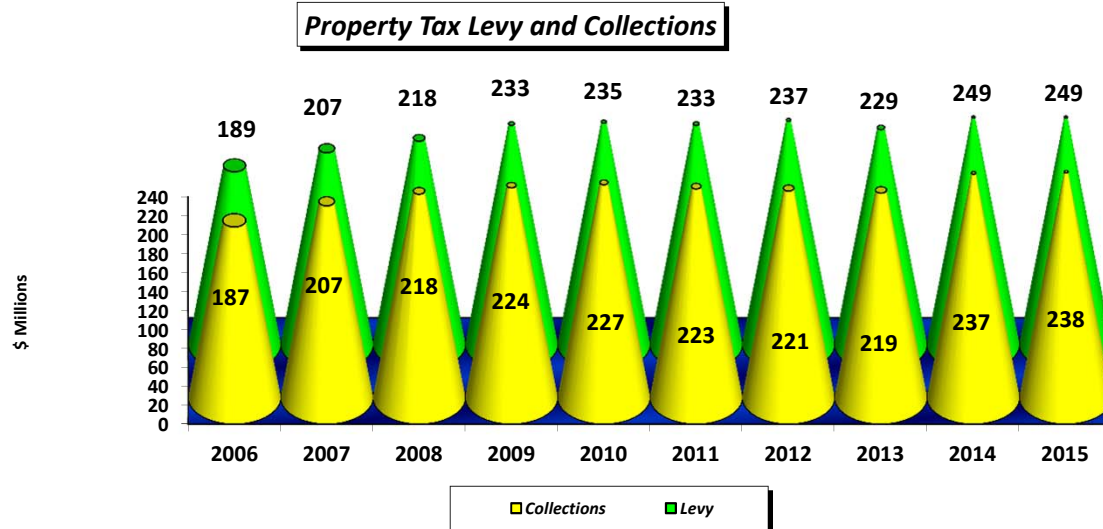
*9 Previously Inland Western Newport News

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

*11 Previously Liebherr Mining & Construction Equipment Inc

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

Fiscal Year	Tax Levy		Current Year		Prior Year Amount	Collections in Subsequent Years		Total Collections for Year	
			Amount	% of Levy				Amount	% of Levy
2006	\$	188,870	\$ 180,295	95.5%	\$ -	\$ 6,355	\$ 186,650	98.8%	
2007		207,427	200,041	96.4%	-	7,236	207,277	99.9%	
2008		218,395	210,243	96.3%	-	7,831	218,074	99.9%	
2009		232,507	224,199	96.4%	-	7,592	231,791	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%	-	Not Available	238,149	95.8%	



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

	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Population	182,965	182,020	180,726	180,719	180,719	193,172	193,212	187,200	186,000	186,000
Personal Income	\$ -	\$ -	\$ 6,891,612	\$ 6,672,878	\$ 6,241,927	\$ 5,946,073	\$ 6,011,449	\$ 5,941,588	\$ 5,500,739	\$ 5,225,657
Governmental Activities:										
General Obligation Bonds	373,923	415,933	388,206	366,401	353,639	383,753	413,482	411,159	411,567	401,020
Guaranty of Peninsula Airport Bonds	-	-	-	4,180	4,490	4,780	5,055	5,315	5,565	5,800
Literary Fund	5,038	5,458	5,878	6,298	6,717	7,237	8,034	8,830	9,321	2,895
Capital Leases	434	571	-	-	-	-	388	53	140	219
Land Lease Payable	742	961	1,167	1,362	-	-	-	-	-	-
Land Purchase Payable	-	142	600	633	-	-	-	-	-	-
Business-type Activities:										
Public Utility Bonds	127,043	141,464	153,005	166,107	172,695	186,330	217,720	208,855	195,155	152,675
Total Primary Government	<u>\$ 507,180</u>	<u>\$ 564,529</u>	<u>\$ 548,856</u>	<u>\$ 544,981</u>	<u>\$ 537,541</u>	<u>\$ 582,100</u>	<u>\$ 644,679</u>	<u>\$ 634,212</u>	<u>\$ 621,748</u>	<u>\$ 562,609</u>
Percentage of Personal Income	-	-	8.0%	8.2%	8.6%	9.8%	10.7%	10.7%	11.3%	10.8%
Net Bonded Debt Per Capita	<u>\$ 2,772</u>	<u>\$ 3,101</u>	<u>\$ 3,037</u>	<u>\$ 3,016</u>	<u>\$ 2,974</u>	<u>\$ 3,013</u>	<u>\$ 3,337</u>	<u>\$ 3,388</u>	<u>\$ 3,343</u>	<u>\$ 3,025</u>

Note: Population figures are derived as follows: 2006 - 2008 City estimates, 2009 - 2015 Census Bureau estimates.

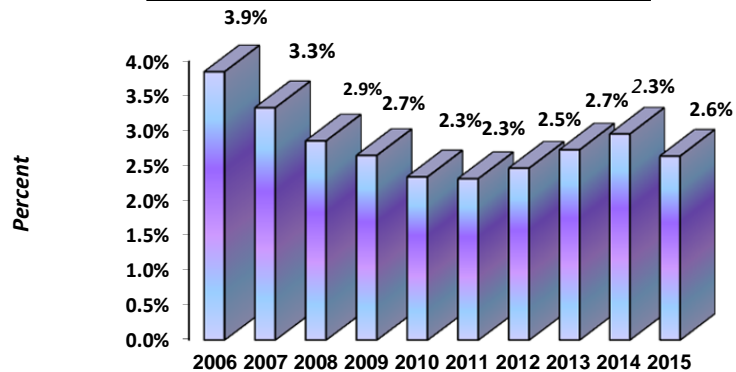
Note: Personal Income figures were not available for FY2014 & FY2015.

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

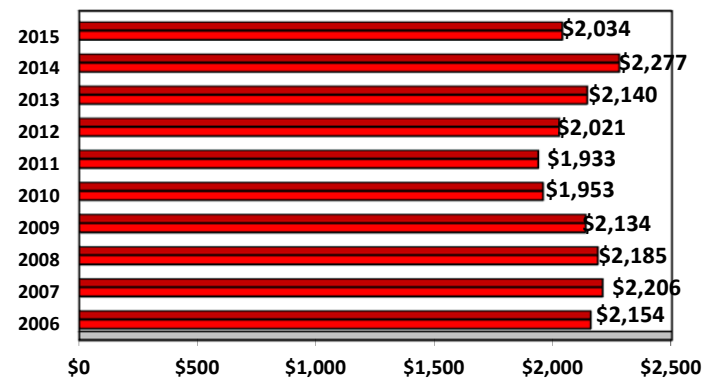
Fiscal Year	Population	Assessed Value of Real Property	General Obligation Bonds	Less Debt Service	Net Bonded Debt	Net Bonded Debt as % of Assessed Valuation	Net Bonded Debt Per Capita
2006	186,000	\$ 10,404,207	\$ 401,020	\$ 319	\$ 400,701	3.9%	\$ 2,154
2007	186,000	12,293,454	411,567	1,307	410,260	3.3%	2,206
2008	187,200	14,286,003	411,159	2,139	409,020	2.9%	2,185
2009	193,212	15,527,921	413,482	1,258	412,224	2.7%	2,134
2010	193,172	16,059,444	383,753	6,511	377,242	2.3%	1,953
2011	180,719	15,037,654	353,639	4,341	349,298	2.3%	1,933
2012	180,719	14,768,666	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

Note: Population figures are derived as follows: 2006 - 2008 City estimates, 2009 - 2015 Census Bureau estimates.

Debt as % of Assessed Property Value

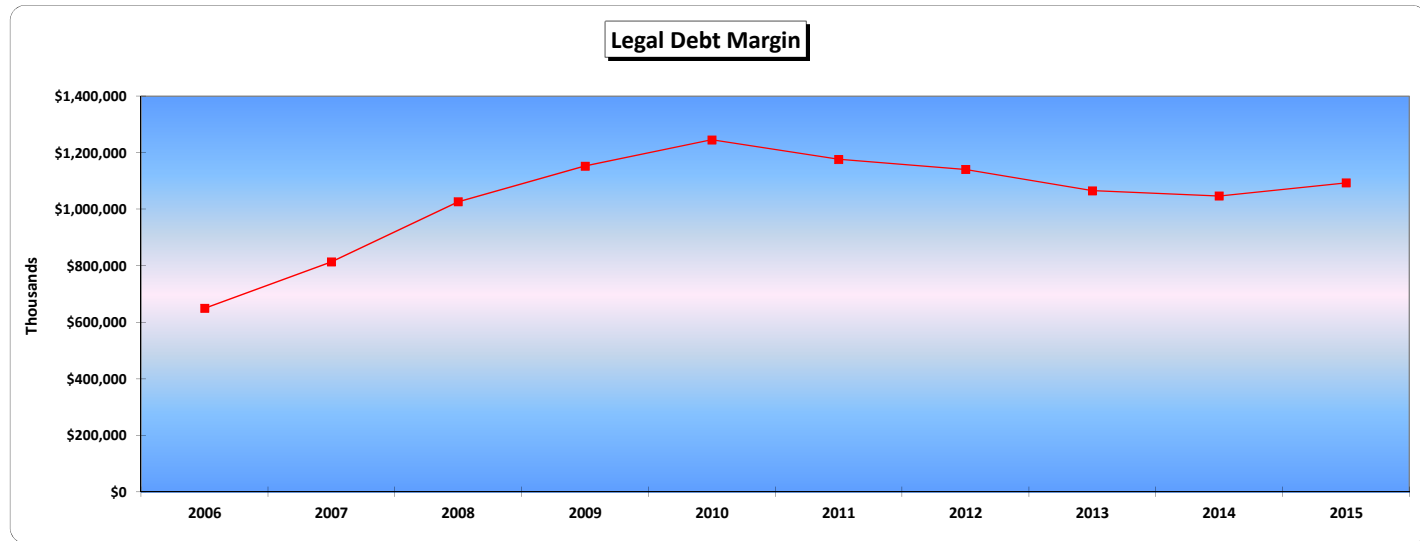


Debt per Capita



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

	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Assessed Value of Real Estate:										
General	\$14,072,307,152	\$13,996,117,386	\$14,150,366,660	\$14,768,666,300	\$15,037,654,401	\$16,059,444,443	\$15,527,920,717	\$14,286,002,924	\$12,293,453,737	\$10,404,206,752
Public Service Corporations	352,225,787	352,225,787	333,265,887	339,789,784	326,888,523	293,307,435	250,994,845	211,388,045	180,706,024	186,889,718
Total assessed value	14,424,532,939	14,348,343,173	14,483,632,547	15,108,456,084	15,364,542,924	16,352,751,878	15,778,915,562	14,497,390,969	12,474,159,761	10,591,096,470
Total debt limit (10% of Total Assessed Value)	1,442,453,294	1,434,834,317	1,448,363,255	1,510,845,608	1,536,454,292	1,635,275,188	1,577,891,556	1,449,739,097	1,247,415,976	1,059,109,647
Bonds Outstanding:										
General Obligation	318,350,000	352,775,000	343,595,000	322,830,000	311,700,000	341,405,000	378,499,990	371,155,000	378,656,195	358,855,000
General Obligation: Virginia Public School Authority (VPSA)	2,430,106	3,099,111	3,749,472	4,382,117	5,256,983	6,105,937	6,929,403	7,728,827	8,506,195	9,263,363
General Obligation: Virginia Resources Authority (VRA) Loan Fund	22,128,990	24,727,534	27,228,156	29,583,326	31,776,867	30,761,968	21,997,022	25,644,960	25,705,339	25,121,275
General Obligation: Virginia Municipal Pool Loans (VMPL)	162,564	737,565	1,312,565	1,887,565	2,462,565	3,037,565	3,612,565	4,187,565	4,762,565	5,337,565
Guaranty of Peninsula Airport Bonds	-	-	-	4,180,000	4,490,000	4,780,000	5,055,000	5,315,000	5,565,000	5,800,000
Literary Fund	5,038,355	5,458,122	5,877,889	6,297,656	6,717,425	7,598,441	8,034,421	8,829,688	9,320,937	2,894,833
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	433,747	570,701	-	-	-	360,965	387,811	53,406	139,513	219,145
Amount available in Debt Service Fund	(1,738,973)	(1,559,619)	(1,467,172)	(1,183,546)	(4,370,897)	(6,511,346)	(1,258,059)	(2,138,839)	(1,306,632)	(319,453)
Total debt outstanding	349,247,283	388,250,908	382,738,404	370,419,612	360,475,437	389,981,024	425,700,647	423,218,101	433,791,606	409,614,222
Legal debt margin	\$1,093,206,011	\$1,046,583,409	\$1,065,624,851	\$1,140,425,996	\$1,175,978,855	\$1,245,294,164	\$1,152,190,909	\$1,026,520,996	\$813,624,370	\$649,495,425
Total net debt applicable to the limit as a % of debt limit	75.79%	72.94%	73.57%	75.48%	76.54%	76.15%	73.02%	70.81%	65.22%	61.32%



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

	Fiscal Year							
	2015	2014	2013	2012	2011	2010	2009	2008
Revenues	\$ 88,819,826	\$ 85,580,834	\$ 76,099,474	\$ 73,337,821	\$ 74,497,013	\$ 72,719,343	\$ 73,817,176	\$ 76,003,756
Less the Sum of:								
Operating Expenses	43,199,329	43,866,179	44,089,732	43,538,269	42,366,225	42,696,818	41,863,251	40,055,421
120% of Max Debt Service on Revenue Bonds	3,129,200	3,129,200	3,129,200	3,129,200	3,129,200	3,129,200	27,555,365	3,118,485
100% of Max Debt Service on General Obligation Water Bonds	15,935,112	16,006,224	16,356,343	16,710,108	19,355,120	16,356,343	16,356,343	19,552,167
	62,263,641	63,001,603	63,575,275	63,377,577	64,850,545	62,182,361	85,774,959	62,726,073
Equals (1)	<u>\$ 26,556,185</u>	<u>\$ 22,579,231</u>	<u>\$ 12,524,199</u>	<u>\$ 9,960,244</u>	<u>\$ 9,646,468</u>	<u>\$ 10,536,982</u>	<u>\$ (11,957,783)</u>	<u>\$ 13,277,683</u>

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

Note: Operating expenses exclude depreciation. Stats only reflect 8 years of data, due to debt being issued in 2008.

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
2006	186,000	\$ 5,225,657	\$ 26,782	32	30,635	4.2%
2007	186,000	5,500,739	28,436	33	30,218	3.4%
2008	187,200	5,941,588	28,990	34	29,441	4.0%
2009	193,212	6,011,449	31,120	33	29,022	6.5%
2010	193,172	5,946,073	32,921	32	28,613	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	27,590	6.9%
2014	182,020	-	-	32	27,804	6.4%
2015	182,965	-	-	33	27,488	6.0%

Sources:

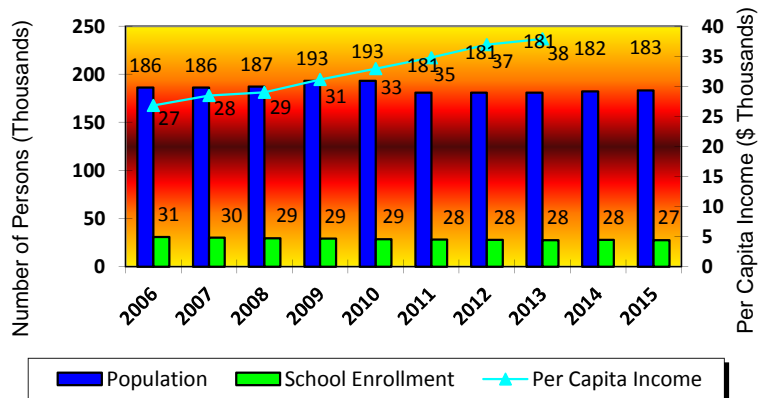
Note: Population figures are derived as follows: 2006 - 2008 City estimates, 2009 - 2015 Census Bureau estimates.

Personal Income: 2006 - 2007 Virginia Employment Commission; 2008-2012 Bureau of Economic Analysis; 2014 - 2015 were not available at year-end.

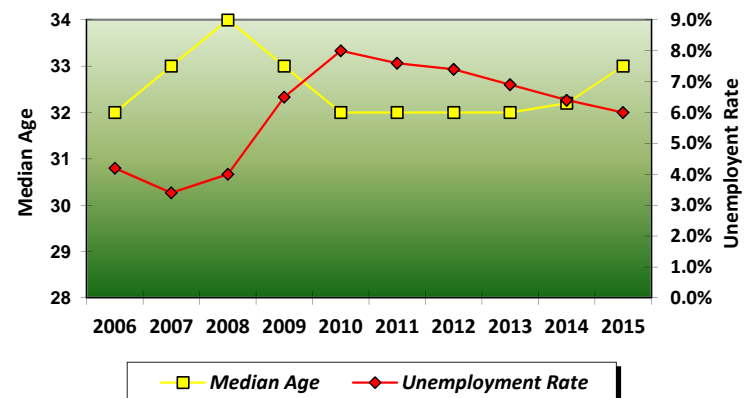
Per Capita Income: 2006 - 2012 Bureau of Economic Analysis; 2014 - 2015 were not available at year-end.

Unemployment Rate: 2006 - 2009, 2015 Virginia Employment Commission; 2010-2014 Virginia Workforce Connection.

Population, School Enrollment, Per Capita Income



Median Age - Unemployment



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

	2015		2006	
	Employees	% of Total City Employment	Employees	% of Total City Employment
Huntington Ingalls Industries, Inc.	10,000 - 25,000	19.30%	10,000 - 25,000	20.28%
Newport News Public Schools	1,000 - 5,000	3.38%	1,000 - 5,000	3.44%
Riverside Regional Medical Center	1,000 - 5,000	3.38%	1,000 - 5,000	3.44%
U. S. Department of Defense	1,000 - 5,000	3.38%	1,000 - 5,000	3.44%
City of Newport News	1,000 - 5,000	3.38%	1,000 - 5,000	3.44%
Ferguson Enterprises Inc.	1,000 - 5,000	3.38%	500 - 999	0.86%
U. S. Department of Army and Air Force	1,000 - 5,000	3.38%	500 - 999	0.86%
Canon	1,000 - 5,000	3.38%	500 - 999	0.86%
Christopher Newport University	1,000 - 5,000	3.38%	500 - 999	0.86%
Walmart	1,000 - 5,000	3.38%	500 - 999	0.86%
Siemen's Automotive Corporation	-	-	500 - 999	0.86%
APAC Customer Services	-	-	500 - 999	0.86%
Total	9,000 - 70,000	49.76%	17,500 - 51,993	40.07%

Source: Virginia Employment Commission

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

	Full-Time City Government Employees as of June 30									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Fund, Function, Activity and Elements										
General Fund:										
General Government Administration:										
Legislative:										
City Council	7	7	7	7	7	7	7	7	7	7
City Clerk	4	4	5	5	5	5	5	5	5	5
General and Financial Administration:										
City Manager	18	18	18	18	18	21	21	23	23	12
Human Resources	15	15	18	19	19	18	18	20	20	18
City Attorney	18	18	18	18	18	18	18	19	19	18
Management/Legislative Services	0	0	0	0	0	0	0	0	0	10
Internal Auditor	6	6	6	6	6	6	6	7	7	7
Commissioner of the Revenue	40	40	40	40	40	42	42	40	40	40
Real Estate Assessor	21	22	22	22	22	23	23	23	23	23
City Treasurer	33	33	33	33	33	34	34	35	35	34
Finance	18	18	18	18	18	18	18	19	19	19
Budget and Evaluation	7	7	7	7	7	7	7	7	7	7
Office of Self-Insurance	6	6	6	6	6	9	9	9	9	9
Purchasing	21	20	23	23	23	23	23	24	24	24
Information Technology	57	56	57	57	58	63	63	66	66	65
Customer Service - 311 Call Center	10	10	6	-	-	-	-	-	-	-
Board of Elections:										
Registrar	5	5	5	5	5	5	5	5	5	5
Total General Government Administration	286	285	289	284	285	299	299	309	309	303
Judicial administration:										
Courts:										
Circuit Courts	6	6	6	6	7	7	7	7	7	7
Office of the Magistrate	6	6	6	6	6	6	6	6	6	6
Clerk of the Circuit Court	24	23	23	24	24	27	27	27	27	27
Court Services	2	2	2	2	2	2	2	2	2	2
Commonwealth's Attorney	49	49	49	49	49	50	50	51	47	41
Total Judicial Administration	87	86	86	87	88	92	92	93	89	83
Public Safety:										
Law Enforcement and Traffic Control:										
Police Department	586	586	586	586	587	593	593	578	578	564
Emergency Communications	-	-	-	-	-	-	-	4	4	4
Fire and Rescue Services:										
Fire Department	379	380	380	382	382	371	371	372	377	374
Correction and Detention:										
Sheriff	215	215	217	217	217	222	222	202	198	193
Adult Corrections	60	60	60	61	62	69	69	73	72	72
Juvenile Detention	126	126	125	130	128	143	143	168	171	178
Inspections:										
Codes Compliance	38	38	38	39	39	40	40	41	41	41
Total Public Safety	1,404	1,405	1,406	1,415	1,415	1,438	1,438	1,438	1,441	1,426
Public Works:										
Engineering	69	78	78	84	85	93	93	98	97	97
Project Services	-	-	-	-	-	-	-	-	-	-
Public Works Administration	156	152	157	158	158	170	170	167	167	159
Total Public Works	225	230	235	242	243	263	263	265	264	256
Welfare:										
Human Services	377	387	391	391	391	397	397	396	394	394
Office of Youth Development	-	-	-	-	-	-	-	9	9	9
Total Welfare	377	387	391	391	391	397	397	405	403	403
Parks and Library:										
Parks and Recreation	106	108	107	105	106	117	117	122	120	112
Parks and Recreation Revolving Fund	83	93	94	95	95	98	98	95	93	89
Library	52	53	56	56	57	61	61	67	67	63
Total Parks, Recreation and Library	241	254	257	256	258	276	276	284	280	264
Community Development:										
Planning and Community Development:										
Development	17	17	17	17	18	20	20	20	20	18
Planning	12	12	13	13	13	14	14	15	15	14
Total Community Development	29	29	30	30	31	34	34	35	35	32
Total General Fund	2,649	2,676	2,694	2,705	2,711	2,799	2,799	2,829	2,821	2,767
OTHER OPERATING FUNDS										
Public Utilities Fund	353	353	365	365	365	370	370	381	372	374
Vehicle & Equipment Services Fund	39	39	39	40	40	40	40	43	40	45
Solid Waste Revolving Fund	64	64	61	61	66	66	66	68	68	69
Wastewater Fund	100	99	97	95	87	87	87	76	76	78
Stormwater Management Fund	90	88	84	81	79	79	79	84	84	83
Pension Fund	6	6	6	6	6	7	7	7	7	7
Economic and Industrial Authority	5	5	5	5	5	5	5	5	4	4
Parking Authority Fund	2	2	2	2	2	2	2	2	1	1
Law Library	1	1	1	1	1	2	2	2	1	1
Schools	3,921	3,937	4,026	4,076	4,138	4,296	4,293	4,420	4,468	4,446
Peninsula Regional Animal Shelter	11	11	0	0	0	0	0	0	0	0
Total Other Operating Funds	4,592	4,605	4,686	4,732	4,789	4,954	4,951	5,088	5,121	5,108
TOTAL CITY EMPLOYEES	7,241	7,281	7,380	7,437	7,500	7,753	7,750	7,917	7,942	7,875
Source: City Adopted Budget.										

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

Function/Program	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
General Government										
Retail Sales (Millions)	\$ 2,212	2,242	2,202	2,109	1,893	1,923	1,873	2,021	2,122	2,029
Police										
Calls for Service	154,111	170,317	169,877	255,267	250,126	251,346	179,975	219,634	230,065	222,939
Number of Offenses	19,291	20,601	20,888	22,516	21,386	23,905	30,787	23,269	24,415	25,336
Adult Arrests	13,156	15,182	9,804	14,759	15,065	15,093	15,496	17,477	18,592	19,288
Traffic Summonses	22,700	29,974	28,383	32,961	15,682	26,611	22,944	23,417	27,072	26,778
Traffic Accidents	2,924	2,756	2,641	2,517	2,480	2,510	3,068	3,484	3,825	3,620
Fire										
Fire Calls	-	-	-	-	-	-	12,718	12,569	6,134	12,022
EMS Calls	-	-	-	-	-	-	21,492	24,854	24,872	23,931
Structure Fires	-	-	-	-	-	-	517	430	484	381
Emergency Medical Service/Rescue*	22,728	27,574	22,017	24,674	22,190	21,845	-	-	-	-
Public Assistance*	1,939	1,660	1,651	1,461	1,569	1,483	-	-	-	-
Good Intent Calls*	1,817	150	1,685	1,305	1,309	1,457	-	-	-	-
False/Alarm / Alarm Malfunction*	1,436	778	1,375	1,348	1,418	1,428	-	-	-	-
Hazardous Conditions*	564	572	637	930	720	879	-	-	-	-
All Fires*	578	610	639	704	870	776	-	-	-	-
Explosions*	7	7	14	18	2	18	-	-	-	-
Weather Event/Other*	10	4	57	51	27	16	-	-	-	-
Sheriff										
City Jail Capacity	300	300	300	300	300	248	248	248	248	248
Codes Compliance										
Building Permits Issued	1,545	1,589	1,985	2,155	1,759	1,821	2,079	2,203	2,640	2,680
Residential Construction	219	230	222	340	262	198	91	130	192	257
Commercial Construction	76	69	49	102	81	37	53	59	65	69
Waterworks										
Gallons Delivered Per Day (Millions)	35	35	35	36	40	40	42	44	44	44
Meters Connected	133,722	133,380	132,743	132,439	134,403	131,924	128,614	124,956	124,677	123,857
Public Works										
Potholes Repaired	19,148	18,148	15,305	15,125	19,216	17,675	7,742	9,697	12,543	13,542
Streets Resurfaced (Miles)	12	8	7	8	9	9	10	11	8	22
Recyclables collected (Tons)	6,901	7,325	6,957	6,698	7,641	7,463	9,924	10,538	10,335	10,653
Parks and Recreation										
Park Vistors (Millions) (All Parks)	4	4	4	4	4	4	4	4	4	4
Celebration of lights vistors	104,617	103,491	109,700	112,854	93,428	91,665	103,341	103,400	111,786	95,510
Tourism visitor inquiries	78,795	77,224	79,088	87,732	80,206	79,610	108,412	129,495	141,774	141,300
Tourism web site visits***	200,132	198,520	215,849	147,875	126,754	138,048	117,588	116,109	93,418	105,374
Vistor guides distributed	200,000	200,000	165,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Library										
Circulation Transactions	887,044	951,241	1,009,939	1,062,759	941,934	847,367	767,131	715,613	688,569	668,092
Reference	152,153	321,102	174,356	178,117	140,623	140,071	129,196	126,182	139,285	122,543
Computer use	302,465	256,929	244,971	240,257	235,080	231,601	206,687	176,168	177,092	147,035
Program attendance	14,985	16,272	26,206	14,526	24,552	14,490	16,594	12,323	13,785	17,548
Visitor count**	890,717	829,290	889,407	759,840	814,129	997,912	973,869	942,224	909,939	877,477
Meeting room use	1,872	916	830	1,126	1,193	1,218	1,223	1,330	1,140	1,029
Schools										
Average Daily Students	29,118	29,268	29,222	27,701	28,183	28,610	29,023	29,441	30,218	30,635

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

**Library: New counters installed FY2011

***Starting FY2013 includes mobile web site visits

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

	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Function/Program										
Police										
Patrol Units	238	238	245	237	253	240	224	221	224	222
Boat	3	2	3	3	2	2	1	1	1	1
Fire										
Stations	11	11	11	11	11	11	10	10	10	10
Fire Trucks	25	25	26	26	23	23	25	24	22	20
Ambulances	17	17	17	17	17	17	17	16	16	16
Boats	2	2	2	2	2	2	2	2	2	1
Engineering										
Streetlights	21,387	20,308	20,125	20,033	19,780	19,645	19,616	20,411	19,791	19,760
Traffic Lights	261	257	253	253	255	253	253	258	256	256
Parks and Recreation										
Parks	37	36	36	35	35	35	35	32	32	19
Acreage	8,697	8,697	9,120	9,119	9,119	9,119	9,119	9,119	9,939	8,978
Athletic Fields	154	154	97	97	97	97	97	102	102	77
Mini-parks	3	3	3	3	3	3	3	3	4	6
Beach/Waterfront Areas	8	8	8	8	8	8	8	4	4	6
Boat Ramps	7	7	7	7	7	7	9	5	5	3
Golf Courses	2	2	2	2	2	2	2	2	2	2
Swimming Pools	3	3	3	3	3	3	3	3	3	3
Tennis Courts (free)	57	57	57	57	57	57	65	56	57	60
Tennis Courts (pay)	24	24	24	24	24	24	20	20	24	20
Squares	3	3	3	3	3	3	3	2	5	3
Library										
Books	260,618	268,173	287,595	273,640	325,370	324,531	340,733	333,176	464,194	456,791
Paperbacks	17,520	17,895	17,497	17,374	19,914	21,276	21,173	20,382	24,758	23,443
Videos/DVD's	39,898	36,793	32,714	26,859	26,270	21,259	19,910	15,128	12,821	11,330
Cassettes/Compact Disks	21,455	20,910	20,362	20,960	22,911	20,605	16,359	12,453	21,227	19,683
Microfilm	1	1	-	-	-	-	-	5,320	9,216	9,176
Microfiche	-	-	-	-	-	-	-	-	1,060	1,060
Waterworks										
Miles of Pipe	1,754	1,746	1,748	1,746	1,798	1,780	1,786	1,785	1,781	1,772
Fire Hydrants	11,113	10,987	10,939	10,874	10,821	10,700	10,650	10,129	9,944	9,843
Public Works										
Refuse Carts	76,654	77,619	78,354	79,056	82,023	76,607	76,729	76,725	76,202	76,491
Streets (miles)	505	505	505	666	505	505	504	504	503	503
Lanes (miles)	1,515	1,515	1,515	1,513	1,191	1,184	1,183	1,183	1,180	1,180
Sanitary sewers (miles)*	584	699	709	709	554	572	572	708	708	602
Storm sewers (miles)*	607	717	542	542	542	487	487	659	605	605
Pump Stations	183	182	180	185	177	179	179	175	171	170
Schools										
Early Childhood centers	4	4	4	4	4	4	4	4	4	4
Elementary schools	24	24	24	24	25	26	26	26	25	27
Middle schools	7	7	7	7	7	7	7	8	8	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.

**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, 2015, 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 25, 2015. Our report recognizes that the City implemented two new accounting standards effective July 1, 2014. 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 included an emphasis paragraph indicating that the Governmental Activities' net position as of June 30, 2014 has been restated.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and three instances of noncompliance that are required to be reported under the *Specifications for Audits of Counties, Cities and Towns*, which are described in the accompanying schedule of findings and questioned costs as items 2015-001 through 2015-003.

City of Newport News, Virginia's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Behrnt CP". The signature is written in a cursive style.

Richmond, Virginia
November 25, 2015

Report of Independent Auditor on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Newport News, Virginia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Newport News, Virginia's (the "City") major federal programs for the year ended June 30, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion 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, 2015.

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. 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 OMB Circular A-133. 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 25, 2015

CITY OF NEWPORT NEWS, VIRGINIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

<u>Federal Granting Agency/Recipient State Agency</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
DEPARTMENT OF AGRICULTURE		
Pass-through Payments:		
Department of Social Services:		
State Administrative Matching Grants for Food Stamp Program (765-460-03; 765-452-13)	10.561	\$ 3,120,183
Department of Agriculture:		
Food Distribution-Commodities	10.558	260
School Lunch Program-Commodities	10.555	\$ 12,474
Department of Education:		
School Breakfast Program (777-360-01; 777-360-03)	10.553	<u>177,319</u>
Total Child Nutrition Cluster		189,793
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
Direct Payments:		
Community Development Block Grant Program		
Community Development Block Grants (B11-MC-51-0015, B12-MC-51-0015)	14.218	1,426,109
Pass-through Payments:		
Department of Housing & Community Development:		
Neighborhood Stabilization Program (08-NSP-05)	14.228	110,809
Home Investment in Affordable Housing (M-07-MC-51-0202, M13-MC-51-0202)	14.239	284,726
Economic Development Initiative Special Projects (B08-SP-VA-0709)	14.251	139,795
DEPARTMENT OF JUSTICE		
Direct Payments -		
Office of Justice Programs:		
Public Safety Partnership & Community Policing Grants (2010-CK-WX-0248)	16.710	354,934
Edward Byrne Memorial Justice Assistance Grants (2010-DJ-BX-0899)	16.738	123,149
Violence Prevention Demonstration Program 2013-MU-FX-K002	16.123	584,268
Pass-through Payments:		
Department of Criminal Justice Service:		
Victims of Crime Act (VOCA) (140-390-01)	16.575	40,973
Drug Control & System improvement - Formula Grant (140-390-01)	16.579	362,731
Office of Juvenile Justice & Delinquency Prevention		
Juvenile Accountability Incentive Block Grants (140-390-01)	16.523	22,945
DEPARTMENT OF TRANSPORTATION		
Pass-through Payments:		
Va Department of Transportation:		
Highway Planning & Construction	20.205	2,957,942
Va Department of Motor Vehicles:		
DMV Select Enforcement	20.607	54,629
NATIONAL ENDOWMENT FOR THE HUMANITIES		
Direct Payments -		
N A & H Youth Program Award	45.024	<u>7,691</u>
Totals, page 1		<u>\$ 9,780,937</u>

CITY OF NEWPORT NEWS, VIRGINIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

<u>Federal Granting Agency/Recipient State Agency</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
DEPARTMENT OF HEALTH & HUMAN SERVICES		
Pass-through Payments:		
Department of Social Services:		
Affordable Care Act MIECH Visiting Program	93.505	\$ 311,730
Promoting Safe and Stable Families (765-469-01)	93.556	21,109
Temporary Assistance for Needy Families (765-452-01; 765-460-03)	93.558	3,060,138
Refugee and Entrant Assistance (765-460-03; 765-491-02)	93.566	75,586
Low-Income Home Energy Assistance (765-460-03)	93.568	319,719
Child Care and Development Block Grant Act of 1990 (765-452-15)	93.575	\$ (3,921)
Child Care and Development Mandatory Matching Funds (765-460-03)	93.596	<u>429,906</u>
Total Child Care Cluster		425,985
Chafee Education and Training Vouchers Program (765-469-01)	93.599	6,392
Child Welfare Services State Grants (765-460-06)	93.645	20,126
Foster Care - Title IV-E (765-460-03; 765-460-06; 765-469-01)	93.658	1,443,998
Adoption Assistance (765-460-03; 765-469-03)	93.659	1,754,920
Social Services Block Grant (765-460-03; 765-468-02; 765-469-01)	93.667	2,213,787
Independent Living (765-460-03; 765-469-01)	93.674	34,441
State Children's Insurance Program (765-460-03)	93.767	109,951
Medical Assistance Program - Title XIX (765-460-03)	93.778	3,659,084
SOCIAL SECURITY ADMINISTRATION		
Direct Payments:		
Social Security Incentive Program	96.006	600
DEPARTMENT OF HOMELAND SECURITY		
Direct Payments:		
FEMA Dept. of Homeland Security (EMW-2012-PU-APP-00134)	97.056	54,105
FEMA Dept. of Homeland Security (EMW-2012-FH-084)	97.083	898,222
Pass-through Payments:		
Department of Emergency Management:		
Emergency Management Performance Grants	97.042	94,898
	97.067	<u>54,787</u>
Totals, page 2		<u>14,559,578</u>
Grand Total		<u>\$ 24,340,515</u>

Note: This report does not include Newport News Public Schools (NNPS) and Peninsula Airport Commission (PAC) programs. NNPS has conducted a separate audit and that report is issued by NNPS. PAC was required to have a single audit for FY2015 that is issued separately.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

(1) Basis of Presentation

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

(2) Relationship to Basic Financial Statements

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

	<u>Federal expenditures</u>
General Fund	\$ 16,025,499
Special Revenue Funds	<u>8,315,016</u>
Total expenditures	<u><u>\$ 24,340,515</u></u>

City of Newport News, Virginia

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

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 under Section 510(a) of OMB Circular A-133: **No**
9. The programs tested as major programs were:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.205-CL	Highway Planning and Construction Cluster
93.558-CL	Temporary Assistance for Needy Families Cluster
93.667	Social Services Block Grant
93.778-CL	Medicaid Cluster
97.083	Staffing for Adequate Fire and Emergency Response

10. Dollar threshold used to distinguish between type A and type B programs: **\$730,215**
11. City of Newport News qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **No**

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

None

C. Findings and Questioned Costs Relating to Federal Awards:

None

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

2015-001: Social Services Business Continuity Plan

Criteria: Per Section 3-15 of the *Specifications for Audits of Counties, Cities, and Towns*, published by the Commonwealth of Virginia's Auditor of Public Accounts (Specifications), the City Department of Human Services should have a documented Business Continuity Plan which includes the requirements prescribed by the Virginia Department of Emergency Management. This plan should be reviewed and updated annually.

Condition: The Newport News Human Services Department Business Continuity Plan was last updated on September 28, 2009.

Cause: The Business Continuity Plan was not reviewed and updated annually.

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

Recommendation: The City should implement corrective action aimed at ensuring an annual review of the Department of Human Services Business Continuity Plan.

Views of Responsible Officials:

- **Contact Person:** Susan Nesbit, Administrative Support Bureau Supervisor; Patrick Childs, Administrative Support Bureau
- **Corrective Action:** The department acknowledges the finding and will take corrective action as required.
- **Anticipated Completion Date:** March 31, 2016

2015-002: Social Services Email Encryption

Criteria: Per Section 3-15 of the Specifications, email communications containing Social Service client information must be sent via secure means. Emails containing sensitive data sent over the internet must be encrypted.

Condition: The City's Department of Human Services does not use encryption software for emails.

Cause: Unknown

Effect: Non-compliance may result in loss of sensitive data.

Recommendation: The City should implement corrective action aimed at ensuring emails containing Social Services data are encrypted.

Views of Responsible Officials:

- **Contact Person:** James Cloud, Department of Human Services (DHS) Information Technology Administrator
- **Corrective Action:** The Newport News Department of Human Services is a member site of the City of Newport News' network domain that includes email services. While currently the City does not have encryption on their exchange servers, products are being tested and the expectation is to have an enterprise solution in place by December 31, 2015. In the near term, users have been instructed to not send sensitive data via email. Human Services Information Technology personnel are also researching cloud-based encryption products to use until the City's enterprise solution is in place.
- **Anticipated Completion Date:** December 31, 2015

2015-003 Child Welfare and Trust Accounts and Social Security Recipients (SSI)

Criteria: Per Section 3-15 of the Specifications, the local Treasurer must establish separate accounts for Child Welfare Trust funds, and these trust fund accounts are not to be commingled with any other funds or accounts of the locality. In addition, The Treasurer must establish a separate account for SSI dedicated funds, and these funds are not to be commingled with other Child Welfare Trust fund accounts or other funds or accounts of the locality.

Condition: The City Department of Human Services does not maintain a separate bank account for Child Welfare Trust Accounts or SSI dedicated Funds.

Cause: The City Department of Human Services did not follow the requirements for maintaining separate bank accounts.

Effect: The Child Welfare Trust funds and SSI dedicated funds are commingled with other Department of Human Services program funds.

Recommendation: The Treasurer should establish a separate bank account for the Child Welfare Trust account and SSI dedicated funds and a separate account for Child Welfare Trust accounts.

Views of Responsible Officials:

- **Contact Person:** Melody Sprague, Department of Human Services Director of Fiscal Operations
- **Corrective Action:** Open a new interest-bearing bank account titled "Human Services – SSI-Special Welfare Account". DHS will request disbursements from this account on a monthly basis to recoup allowable expenses and arrange for monthly bank statements in order to perform the required child account reconciliations
- **Anticipated Completion Date:** November 30, 2015

Resolution of Prior Year Findings:

- 2014-001 Allowable Activities/Allowable Costs** – Finding not repeated
- 2014-002 Social Services Business Continuity Plan** – Finding repeated. See finding 2015-001
- 2014-003 Social Services Email Encryption** – Finding repeated. See finding 2015-002
- 2014-004 Virginia Initiative for Employment not Welfare (VIEW)** – Finding not repeated
- 2014-005 Social Services Security Access – Terminated Users** – Finding not repeated
- 2014-006 Conflicts of Interest** – Finding not repeated



SELENE, SCULPTURE BY MARIA GAMUNDI

COMPREHENSIVE ANNUAL FINANCIAL REPORT 2015

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

CITY OF NEWPORT NEWS, VIRGINIA

