

**PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 31, 2012**

**NEW ISSUE  
BOOK-ENTRY ONLY**

**Ratings:    Moody's ..... Aa1  
                 Standard & Poor's ..... AA  
                 (See "Ratings" herein)**

In the opinion of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the City, under existing statutes and court decisions and assuming compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986 (the "Code"), **except that no opinion is expressed as to such exclusion of interest on any Series D of 2012 Bond for any period during which such Series D of 2012 Bond is held by a person who, within the meaning of Section 147(a) of the Code, is a "substantial user" of the facilities financed with the proceeds of the Series D of 2012 Bonds or a "related person"**, (ii) interest on the Series C of 2012 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations and (iii) **interest on the Series D of 2012 Bonds, however, is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code.** See "TAX MATTERS" herein for a description of certain other provisions of law which may affect the federal tax treatment of interest on the Bonds. In addition, in the opinion of Bond Counsel, under the existing statutes of the Commonwealth of Virginia, interest on the Bonds is not includable in computing the Virginia income tax.

**OFFICIAL STATEMENT  
RELATING TO THE ISSUANCE OF**

**\$48,000,000\***  
**CITY OF NEWPORT NEWS, VIRGINIA,  
GENERAL OBLIGATION GENERAL  
IMPROVEMENT BONDS,  
SERIES C OF 2012  
(NOT SUBJECT TO AMT)**

**\$3,605,000\***  
**CITY OF NEWPORT NEWS, VIRGINIA,  
GENERAL OBLIGATION REFUNDING  
BONDS, SERIES D OF 2012  
(SUBJECT TO AMT)**

**Dated: Date of Delivery**

**Due: September 1, As Shown On Inside Cover**

The Bonds will be general obligations of the City of Newport News, Virginia (the "City"), and the full faith and credit of the City will be irrevocably pledged to the punctual payment of the principal of and interest on the Bonds as they become due. In each year while the Bonds, or any of them, are outstanding and unpaid, the City Council of the City is authorized and required to levy and collect annually, at the same time and in the same manner as other taxes of the City are assessed, levied and collected, a tax upon all taxable property within the City, over and above all other taxes, authorized or limited by law and without limitation as to rate or amount, sufficient to pay when due the principal of and interest on the Bonds to the extent other funds of the City are not lawfully available and appropriated for such purpose.

The Bonds will be dated the date of their delivery and will mature in each of the years and in the principal amounts set forth on the inside cover of this Official Statement. Interest on the Bonds will be payable on March 1, 2013 and semiannually on each March 1 and September 1 thereafter. The record dates for the payment of the principal of and the interest on the Bonds will be February 15, 2013 and each February 15 and August 15 thereafter.

The Bonds are issuable only in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, in the principal amount of \$5,000 or integral multiples thereof. Purchasers will not receive certificates representing their interests in the Bonds purchased. Payments of principal and interest will be made by wire transfer to DTC or its nominee, Cede & Co., which will then remit such payments to the DTC Participants, for subsequent disbursement to the Beneficial Owners of the Bonds, as described in APPENDIX D ("DESCRIPTION OF THE DEPOSITORY TRUST COMPANY AND THE BOOK-ENTRY SYSTEM").

The Series C of 2012 Bonds maturing on and after September 1, 2022\* are subject to redemption prior to their stated maturities at the option of the City on or after September 1, 2021, at prices determined as set forth herein. **The Series D of 2012 Bonds are not subject to redemption prior to their stated maturities.**

The Bonds are offered when, as and if issued, subject to approval of their validity by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the City. It is expected that delivery of the Bonds through the facilities of DTC will be made on or about September 27, 2012.

**Dated: September \_\_, 2012.**

**\*Preliminary, subject to change.**

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These Bonds may not be sold nor may offers to buy be accepted prior to the date the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

**MATURITIES, AMOUNTS, INTEREST RATES, YIELDS AND CUSIP NUMBERS****City of Newport News, Virginia,  
General Obligation General Improvement Bonds, Series C of 2012  
(Not Subject to AMT)**

<u>Year (September 1)*</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP Numbers**</u>
2013	\$2,400,000	%	%	652233
2014	2,400,000			652233
2015	2,400,000			652233
2016	2,400,000			652233
2017	2,400,000			652233
2018	2,400,000			652233
2019	2,400,000			652233
2020	2,400,000			652233
2021	2,400,000			652233
2022	2,400,000			652233
2023	2,400,000			652233
2024	2,400,000			652233
2025	2,400,000			652233
2026	2,400,000			652233
2027	2,400,000			652233
2028	2,400,000			652233
2029	2,400,000			652233
2030	2,400,000			652233
2031	2,400,000			652233
2032	2,400,000			652233

**City of Newport News, Virginia,  
General Obligation Refunding Bonds, Series D of 2012  
(Subject to AMT)**

<u>Year (September 1)*</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP Numbers**</u>
2014	\$305,000	%	%	652233
2015	420,000			652233
2016	430,000			652233
2017	455,000			652233
2018	465,000			652233
2019	490,000			652233
2020	515,000			652233
2021	525,000			652233

\* Preliminary, subject to change.

\*\*CUSIP numbers have been assigned by an organization not affiliated with the City and are included solely for the convenience of the holders of the Bonds. The City is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to their correctness on the Bonds or as indicated above.

## **City of Newport News, Virginia**

### **CITY COUNCIL**

McKINLEY L. PRICE, DDS, Mayor  
HERBERT H. BATEMAN, JR., Vice Mayor  
ROBERT L. COLEMAN  
SHARON P. SCOTT  
TINA L. VICK  
JOSEPH C. WHITAKER  
DR. PAT WOODBURY

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NEIL A. MORGAN, City Manager  
ALAN K. ARCHER, Assistant City Manager  
CYNTHIA D. ROHLF, Assistant City Manager  
COLLINS L. OWENS, JR., City Attorney  
LISA J. CIPRIANO, Director of Budget and Evaluation  
STEWART MITCHELL, Director of Finance  
FLORENCE G. KINGSTON, Director of Development

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### **Bond Counsel**

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(212) 820-9300

### **Financial Advisor**

PUBLIC FINANCIAL MANAGEMENT, INC.  
4350 North Fairfax Drive  
Suite 580  
Arlington, Virginia 22203  
(703) 741-0175

### **For Additional Information**

Department of Budget and Evaluation  
City of Newport News  
2400 Washington Avenue  
Newport News, Virginia 23607  
(757) 926-8447

# City of Newport News Centerline Map



James City County

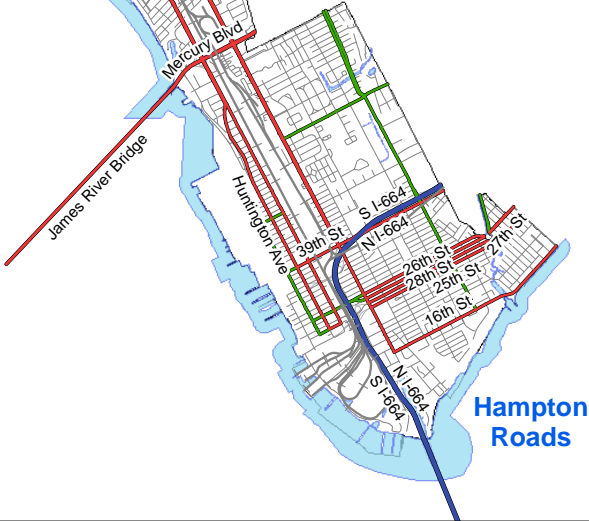
York County

James River

City of Hampton



VICINITY MAP



Hampton Roads

The information contained in this Official Statement (which term shall be deemed to include Appendix A, Appendix B, Appendix C, Appendix D, Appendix E, Appendix F, Appendix G-1 and Appendix G-2 to this Official Statement and all documents incorporated herein by reference) has been obtained from the City and other sources deemed reliable. The information concerning DTC has been obtained from DTC. No representation is made, however, as to the accuracy or completeness of the information contained in this Official Statement, and nothing contained in this Official Statement is, or shall be relied upon as, a promise or representation by the City. This Official Statement is submitted in connection with the sale of the securities described in it and may not be reproduced or used, in whole or in part, for any other purpose. The information contained in this Official Statement is subject to change without notice and neither the delivery of this Official Statement nor any sale made by means of it shall, under any circumstances, create any implication that there have not been changes in the affairs of the City since the date of this Official Statement.

No broker, dealer, sales representative or any other person has been authorized by the City to give any information or to make any representation other than as contained in this Official Statement in connection with the offering described in it and, if given or made, such other information or representation must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than those described on the cover page and inside cover page hereof, nor shall there be any offer to sell, solicitation of an offer to buy or sale of such securities by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

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THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

## **TABLE OF CONTENTS**

	<u>Page</u>
INTRODUCTORY STATEMENT .....	1
DESCRIPTION OF THE BONDS .....	1
Interest, Maturities and Places of Payment.....	1
Optional Redemption .....	2
Notice of Redemption .....	2
SECURITY FOR THE BONDS.....	3
PLAN OF REFUNDING.....	3
BONDHOLDER REMEDIES IN THE EVENT OF DEFAULT .....	3
RATINGS.....	4
CERTIFICATE CONCERNING OFFICIAL STATEMENT.....	4
APPROVAL OF LEGAL MATTERS.....	5
TAX MATTERS .....	5
Opinion of Bond Counsel.....	5
Certain Ongoing Federal Tax Requirements and Covenants.....	5
Certain Collateral Federal Tax Consequences.....	6
Original Issue Discount .....	6
Bond Premium.....	6
Information Reporting and Backup Withholding .....	7
Miscellaneous.....	7
VERIFICATION .....	7
SALE AT COMPETITIVE BIDDING.....	7
FINANCIAL ADVISOR .....	8
LITIGATION .....	8
INDEPENDENT AUDITORS .....	8
CONTINUING DISCLOSURE.....	8
OTHER MATTERS .....	9

## **APPENDICES:**

Appendix A	City of Newport News .....	A-1
Appendix B	Organizational Chart .....	B-1
Appendix C	General Purpose Financial Statements for the Fiscal Year Ended June 30, 2011 .....	C-1
Appendix D	Description of The Depository Trust Company and the Book-Entry System .....	D-1
Appendix E	Proposed Forms of Opinions of Bond Counsel .....	E-1
Appendix F	Form of Continuing Disclosure Certificate .....	F-1
Appendix G-1	Detailed Notice of Sale of the Series C of 2012 Bonds.....	G-1-1
Appendix G-2	Detailed Notice of Sale of the Series D of 2012 Bonds.....	G-2-1

**OFFICIAL STATEMENT  
RELATING TO THE ISSUANCE OF**

**\$48,000,000\***  
**CITY OF NEWPORT NEWS, VIRGINIA,**  
**GENERAL OBLIGATION GENERAL**  
**IMPROVEMENT BONDS,**  
**SERIES C OF 2012**  
**(NOT SUBJECT TO AMT)**

**\$3,605,000\***  
**CITY OF NEWPORT NEWS, VIRGINIA,**  
**GENERAL OBLIGATION REFUNDING**  
**BONDS, SERIES D OF 2012**  
**(SUBJECT TO AMT)**

**INTRODUCTORY STATEMENT**

The purpose of this Official Statement, which includes the cover page and the appendices hereto, is to set forth information regarding the City of Newport News, Virginia (the "City"), and its sale of \$48,000,000\* principal amount of General Obligation General Improvement Bonds, Series C of 2012 (the "Series C of 2012 Bonds") and \$3,605,000\* principal amount of General Obligation Refunding Bonds, Series D of 2012 (the "Series D of 2012 Bonds" and, collectively with Series C of 2012 Bonds, the "Bonds").

The Bonds are being issued under and pursuant to the Public Finance Act of 1991, being Title 15.2, Chapter 26 of the Code of Virginia, 1950, and ordinances adopted by the City Council of the City (the "City Council") under the Public Finance Act of 1991.

The Series C of 2012 Bonds are to be sold at competitive sale on Wednesday, September 12, 2012, in accordance with the terms, conditions and provisions of the Detailed Notice of Sale of the Series C of 2012 Bonds attached hereto as Appendix G-1. The Series D of 2012 Bonds are to be sold at competitive sale on Wednesday, September 12, 2012, in accordance with the terms, conditions and provisions of the Detailed Notice of Sale of the Series D of 2012 Bonds attached hereto as Appendix G-2. See "SALE AT COMPETITIVE BIDDING" herein.

The Series C of 2012 Bonds are being issued to pay the costs of the public improvement projects set forth below:

Capital Equipment	\$ 2,100,000
Community Development	8,400,000
Parks and Recreation	1,800,000
Public Buildings	13,700,000
Public Schools	7,700,000
Sewer Extensions	2,400,000
Sewer Rehabilitations	5,400,000
Stormwater/Drainage	4,250,000
Streets and Bridges	<u>2,250,000</u>
Total	\$48,00,000

The Series D of 2012 Bonds are being issued for the purpose of refunding on a current basis certain outstanding bonds of The Peninsula Airport Commission (the "Commission"), described under "PLAN OF REFUNDING" herein.

**DESCRIPTION OF THE BONDS**

**Interest, Maturities and Places of Payment**

The Bonds will be dated the date of their delivery, will bear interest from their date, payable on March 1, 2013 and semiannually on each March 1 and September 1 thereafter, at the rates per annum set forth on the inside cover page of this Official Statement. The Bonds will mature on September 1 in each of the years and in the respective principal amounts set forth on the inside cover page of this Official Statement. The record dates for the

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\*Preliminary, subject to change.

payment of the principal of and the interest on the Bonds will be February 15, 2013 and each February 15 and August 15 thereafter.

The Bonds will be issued in fully registered form in the denominations of \$5,000 or integral multiples thereof and will be held by The Depository Trust Company ("DTC"), or its nominee, as securities depository with respect to the Bonds. See "APPENDIX D - DESCRIPTION OF THE DEPOSITORY TRUST COMPANY AND THE BOOK-ENTRY SYSTEM". Purchases of beneficial ownership interest in the Bonds will be made only in book-entry form and individual purchasers will not receive physical delivery of Bond certificates.

The Registrar and Paying Agent for the Bonds will be U.S. Bank National Association, in the City of Richmond, Virginia.

### **Optional Redemption \***

The Series C of 2012 Bonds maturing on or before September 1, 2021\* are not subject to redemption prior to their stated maturities. The Series C of 2012 Bonds maturing on and after September 1, 2022\* (or portions thereof in installments of \$5,000) are subject to redemption at the option of the City prior to their stated maturities, on or after September 1, 2021\*, in whole or in part from time to time on any date, in such order as may be determined by the City (except that if at any time less than all of the Series C of 2012 Bonds of a given maturity are called for redemption, the particular Series C of 2012 Bonds or portions thereof in installments of \$5,000 of such maturity to be redeemed will be selected by lot), upon payment of a redemption price equal to the principal amount of the Series C of 2012 Bonds to be redeemed, together with the interest accrued thereon to the date fixed for the redemption thereof.

The Series D of 2012 Bonds are not subject to redemption prior to their stated maturities.

### **Notice of Redemption**

If any Series C of 2012 Bond (or any portion of the principal amount thereof in installments of \$5,000) shall be called for redemption, notice of the redemption thereof, specifying the date, number and maturity of such Series C of 2012 Bond, the date and place or places fixed for its redemption and if less than the entire principal amount of such Series C of 2012 Bond is to be redeemed, that such Series C of 2012 Bond must be surrendered in exchange for the principal amount thereof to be redeemed and a new Series C of 2012 Bond or Series C of 2012 Bonds issued equalling in principal amount that portion of the principal amount thereof not to be redeemed, shall be mailed not less than thirty (30) days prior to the date fixed for redemption by first class mail, postage prepaid, to the registered owner of such Series C of 2012 Bond at the address of such registered owner as it appears on the books of registry kept by the Registrar for the Series C of 2012 Bonds as of the close of business on the forty-fifth (45th) day next preceding the date fixed for redemption. If notice of the redemption of any Series C of 2012 Bond (or portion thereof in installments of \$5,000) shall have been given as aforesaid, and payment of the principal amount of such Series C of 2012 Bond (or the portion of the principal amount thereof to be redeemed) and of the accrued interest payable upon such redemption shall have been duly made or provided for, interest on such Series C of 2012 Bond shall cease to accrue from and after the date so specified for redemption thereof.

Any notice of the optional redemption of the Series C of 2012 Bonds may state that it is conditioned upon there being on deposit with the City, or with the Registrar and Paying Agent for the Bonds or other agent designated by the City, on the date fixed for the redemption thereof an amount of money sufficient to pay the redemption price of such Series C of 2012 Bonds, together with the interest accrued thereon to the date fixed for the redemption thereof, and any conditional notice so given may be rescinded at any time before the payment of the redemption price of such Series C of 2012 Bonds, together with the interest accrued thereon, is due and payable if any such condition so specified is not satisfied. If a redemption of any Series C of 2012 Bonds does not occur after a conditional notice is given due to there not being on deposit with the City, or with the Registrar and Paying Agent for the Bonds or other agent designated by the City, a sufficient amount of money to pay the redemption price of

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\* Preliminary, subject to change.



such Series C of 2012 Bonds, together with the interest accrued thereon to the date fixed for the redemption thereof, the corresponding notice of redemption shall be deemed to be revoked.

So long as the Series C of 2012 Bonds are in book-entry only form, any notice of redemption shall be given only to DTC or to its nominee. The City shall not be responsible for providing any beneficial owner of the Series C of 2012 Bonds any notice of redemption. See “APPENDIX D – DESCRIPTION OF THE DEPOSITORY TRUST COMPANY AND THE BOOK-ENTRY SYSTEM” for a discussion of the notice of redemption to be given to beneficial owners of the Series C of 2012 Bonds when the Book-Entry System for the Series C of 2012 Bonds is in effect.

## SECURITY FOR THE BONDS

The Bonds are general obligations of the City, and the full faith and credit of the City will be irrevocably pledged to the punctual payment of the principal of and interest on the Bonds as the same become due. In each year while the Bonds, or any of them, remain outstanding and unpaid, the City Council is authorized and required to levy and collect, at the same time and in the same manner as other taxes of the City are assessed, levied and collected, a tax upon all taxable property within the City, over and above all other taxes authorized or limited by law and without limitation as to rate or amount, sufficient to pay when due the principal of and interest on the Bonds to the extent other funds of the City are not lawfully available and appropriated for such purpose.

## PLAN OF REFUNDING

The net proceeds of sale of the Series D of 2012 Bonds, exclusive of the costs of issuance thereof, will be applied to refund on a current basis \$3,855,000 outstanding principal amount of the Commission’s Airport Improvement Bonds, Refunding Series 2011, dated April 15, 2001, which are subject to redemption and are to be redeemed on October 29, 2012 (the “Refunded Bonds”). Under the terms of a Guaranty Agreement, dated as of June 15, 1991, as amended as of April 15, 2001, the City has unconditionally guaranteed the full and prompt payment of the Refunded Bonds. Such net proceeds of sale of the Series D of 2012 Bonds will be deposited with U.S. Bank National Association, Richmond, Virginia, as Escrow Agent under an Escrow Deposit Agreement, dated September 27, 2012 (the “Escrow Deposit Agreement”). Such proceeds so deposited with the Escrow Agent (which will be held as cash and not invested) will be sufficient to pay interest when due on the Refunded Bonds to their redemption date and to pay the redemption price of the Refunded Bonds on their redemption date. The City is undertaking the refunding of the Refunded Bonds in order to reduce its annual debt service expenditures.

The Refunded Bonds are more fully described below:

The Peninsula Airport Commission Airport Improvement Bonds, Refunding Series 2001,  
Dated August 15, 2001

<u>Year of Maturity</u> <u>(July 15)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Redemption</u> <u>Date</u>	<u>Redemption</u> <u>Price</u>	<u>CUSIP</u> <u>Numbers</u>
2015	\$1,080,000	5.375%	October 29, 2012	101%	707079 BB4
2021	<u>2,775,000</u>	5.50	October 29, 2012	101	707079 BC2
	\$3,855,000				

## BONDHOLDER REMEDIES IN THE EVENT OF DEFAULT

Section 15.2-2659 of the Code of Virginia, 1950, provides that, upon the affidavit of any owner or any paying agent of any general obligation bonds of a political subdivision of the Commonwealth of Virginia (including the City) in default as to payment of principal or interest, the Governor shall immediately make a summary investigation and if such default is established to the Governor’s satisfaction, the Governor shall immediately make an order directing the State Comptroller to withhold all further payment to the political subdivision of all funds, or of any part thereof, appropriated and payable by the Commonwealth to the political subdivision so in default for any and all purposes until such default is cured. The Governor shall, while such default continues, direct the payment of all such sums so withheld, or so much thereof as is necessary, to the owners of such bonds so in default, or the

paying agent therefor, so as to cure, or to cure insofar as possible, the default on such bonds and the interest thereon. The Governor shall, as soon as practicable, give notice of such default and of the availability of funds with the paying agent or with the State Comptroller by publication one time in a daily newspaper of general circulation in the City of Richmond and, in the case of registered Bonds, by mail, to the registered owners of the Bonds. The State Comptroller advises that to date no order to withhold funds pursuant to Section 15.2-2659 has ever been issued. Although the provisions of Section 15.2-2659 have never been tested in a Virginia court, the Attorney General of Virginia has ruled that appropriated funds can be withheld by the Commonwealth pursuant to that section. In the fiscal year ended June 30, 2011, total revenues received from the Commonwealth amounted to approximately \$245,425,967.

Neither the Bonds nor the proceedings with respect thereto specifically provide any remedies which would be available to owners of the Bonds if the City defaults in the payment of principal of or interest on the Bonds, nor do they contain any provisions for the appointment of a trustee to enforce the interests of the owners of the Bonds upon the occurrence of such default. Upon any default in the payment of the principal of or interest on a Bond, the owner of such Bond could, among other things, seek to obtain a writ of mandamus from a court of competent jurisdiction requiring the City Council to assess, levy and collect an *ad valorem* tax, unlimited as to rate or amount, upon all property in the City subject to taxation by the City, sufficient to pay the principal of and interest on the Bonds as the same shall come due and otherwise to observe the covenants contained in the Bonds and the proceedings with respect thereto. The mandamus remedy, however, may be impracticable and difficult to enforce. Further, the right to enforce payment of the principal of or interest on the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws and equitable principles, which may limit the specific enforcement of certain remedies.

Although Virginia law currently does not authorize such action, future legislation may enable the City to file a petition for relief under the United States Bankruptcy Code (the "Bankruptcy Code") if it is insolvent or unable to pay its debts. Bankruptcy proceedings by the City could have adverse effects on Bondholders including (a) delay in the enforcement of their remedies, (b) subordination of their claims to those supplying goods and services to the City after the initiation of bankruptcy proceedings, and to the administrative expenses of bankruptcy proceedings and (c) imposition without their consent of a reorganization plan reducing or delaying payment of the Bonds. The Bankruptcy Code contains provisions intended to ensure that, in any reorganization plan not accepted by at least a majority of a class of creditors such as the holders of general obligation bonds, such creditors will have the benefit of their original claim or the "indubitable equivalent". The effect of these and other provisions of the Bankruptcy Code cannot be predicted and may be significantly affected by judicial interpretation.

The City has never defaulted in the payment of either principal of or interest on any indebtedness.

## **RATINGS**

Moody's Investors Service and Standard & Poor's Ratings Services have assigned the Bonds the initial ratings set forth on the cover page of this Official Statement. An explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. The City furnished to such rating agencies the information contained in this Official Statement and certain publicly available materials and information about the City. Generally, rating agencies base their ratings on such materials and information, as well as investigations, studies and assumptions of the rating agencies. Such ratings may be changed at any time, and no assurance can be given that they will not be revised downward or withdrawn entirely by either or both of such rating agencies if, in the judgment of either or both, circumstances so warrant. Such circumstances may include, without limitation, changes in or unavailability of information relating to the City. Any such downward revision or withdrawal of either of such ratings may have an adverse effect on the market price of the Bonds.

## **CERTIFICATE CONCERNING OFFICIAL STATEMENT**

The City will furnish a certificate dated as of the date of delivery of the Bonds, signed by the City Manager and the Director of Budget and Evaluation, stating that the descriptions and statements contained in the Official Statement on the date of sale and on the date of delivery of the Bonds were and are, to the best of their knowledge, true and correct in all material respects and did not and do not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading. In such certificate the City Manager and the

Director of Budget and Evaluation may state that they did not independently verify the information indicated in the Official Statement as having been obtained or derived from sources other than the City but that they have no reason to believe such information is not accurate. Such certificate will also state that from the date of sale of the Bonds to the date of delivery of the Bonds there has been no material adverse change in the condition of the City (financial or otherwise) which affects the City's ability to pay principal of and interest on the Bonds or any other general obligation bonds of the City.

## APPROVAL OF LEGAL MATTERS

Certain legal matters relating to the authorization and validity of the Bonds are subject to the approval of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the City. The opinions of Bond Counsel approving the Bonds will be furnished at the expense of the City upon delivery of the Bonds and will be printed on or appended to the Bonds. The proposed forms of the opinions of Bond Counsel are set forth in Appendix E to this Official Statement. Bond Counsel has not prepared this Official Statement and has not verified its accuracy, completeness or fairness. Accordingly, Bond Counsel will express no opinion of any kind as to this Official Statement, and its opinions will be limited to matters relating to the authorization and validity of the Bonds and to the exclusion of interest on the Bonds from gross income for purposes of federal and Virginia income taxation as described herein.

## TAX MATTERS

### Opinions of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the City, under existing statutes and court decisions and assuming compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986 (the "Code"), **except that no opinion is expressed as to such exclusion of interest on any Series D of 2012 Bond for any period during which such Series D of 2012 Bond is held by a person who, within the meaning of Section 147(a) of the Code, is a "substantial user" of the facilities financed with the proceeds of the Series D of 2012 Bonds or a "related person"**, (ii) interest on the Series C of 2012 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations and (iii) **interest on the Series D of 2012 Bonds, however, is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code.** In rendering its opinions, Bond Counsel has relied on certain representations, certifications of fact and statements of reasonable expectations made by the City in connection with the Bonds, and Bond Counsel has assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel, under existing statutes of the Commonwealth of Virginia, interest on the Bonds is not includable in computing the Virginia income tax.

Bond Counsel expresses no opinion regarding any other federal or State tax consequences with respect to the Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, or any facts or circumstances that may thereafter come to its attention, or changes in law or in interpretations thereof that may thereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action thereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Bonds or under State and local tax law.

### Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Bonds, yield and other restrictions on investments of gross proceeds and the arbitrage rebate

requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, regardless of the date on which such noncompliance occurs or is discovered. The City has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

### **Certain Collateral Federal Tax Consequences**

The following is a brief discussion of certain collateral federal income tax matters with respect to the Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Bonds.

Prospective owners of the Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for federal income tax purposes. Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

### **Original Issue Discount**

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Bonds of that maturity was sold (excluding sales to bond houses, brokers or similar persons acting in the capacity as underwriters, placement agents or wholesalers). In general, the issue price for each maturity of Bonds is expected to be the initial public offering price set forth on the inside cover page of this Official Statement. Bond Counsel further is of the opinion that, for any Bonds having OID (“Discount Bonds”), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for federal income tax purposes to the same extent as other interest on the Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner’s adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange or other disposition of such Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for federal income tax purposes, including various special rules relating thereto, and the State and local tax consequences of acquiring, holding and disposing of Discount Bonds.

### **Bond Premium**

In general, if an owner acquires a Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated

interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and State and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange or other disposition of Premium Bonds.

### **Information Reporting and Backup Withholding**

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification", or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding", which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's federal income tax once the required information is furnished to the Internal Revenue Service.

### **Miscellaneous**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or State level, may adversely affect the tax-exempt status of interest on the Bonds under federal or State law or otherwise prevent beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) and such decisions could affect the market price or marketability of the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

### **VERIFICATION**

The Arbitrage Group, Inc. will verify certain mathematical computations as to the sufficiency of the moneys deposited under the Escrow Deposit Agreement (i) to pay, when due, the interest on the Refunded Bonds from the date the Series D of 2012 Bonds are issued to the date fixed for the redemption of the Refunded Bonds and (ii) to pay the redemption prices of the Refunded Bonds on the date fixed for the redemption of the Refunded Bonds. See "PLAN OF REFUNDING" above.

### **SALE AT COMPETITIVE BIDDING**

The Bonds were sold at competitive sale on September \_\_, 2012.

The Series C of 2012 Bonds were awarded to a group of underwriters led by \_\_\_\_\_ (the "Series C of 2012 Bonds Underwriters") at a price to the City that results in an underwriters' discount of \$\_\_\_\_\_ from the initial public offering prices derived from the yields for the Series C of 2012 Bonds shown on the inside cover page of this Official Statement. The Series C of 2012 Bonds Underwriters supplied the information as to the initial public offering yields for the Series C of 2012 Bonds shown on such inside cover page. The Series C of 2012 Bonds

Underwriters may offer to sell the Series C of 2012 Bonds to certain dealers and others at prices lower than the initial public offering prices, or prices derived from the yields, shown on such inside cover page.

The Series D of 2012 Bonds were awarded to a group of underwriters led by \_\_\_\_\_ (the “Series D of 2012 Bonds Underwriters”) at a price to the City that results in an underwriters’ discount of \$\_\_\_\_\_ from the initial public offering prices derived from the yields for the Series D of 2012 Bonds shown on the inside cover page of this Official Statement. The Series D of 2012 Bonds Underwriters supplied the information as to the initial public offering yields for the Series D of 2012 Bonds shown on such inside cover page. The Series D of 2012 Underwriters may offer to sell the Series D of 2012 Bonds to certain dealers and others at prices lower than the initial public offering prices, or prices derived from the yields, shown on such inside cover page.

### **FINANCIAL ADVISOR**

The City has retained Public Financial Management, Inc., Arlington, Virginia, as financial advisor (the “Financial Advisor”), in connection with the issuance of the Bonds. Although the Financial Advisor assisted in the preparation and review of this Official Statement, the Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in the Official Statement. The Financial Advisor is a financial advisory, investment management and consulting organization and is not engaged in the business of underwriting municipal securities.

### **LITIGATION**

There is no litigation pending, or, to the knowledge of the City Attorney, threatened, affecting the issuance of the Bonds or the security therefor. The City is involved in several lawsuits arising from the ordinary course of City operations. The City is involved in several lawsuits brought by taxpayers that allege erroneous tax assessments and, while these taxpayers are not moving forward with such lawsuits, should the taxpayers prevail, the City would have to appropriate funds for reimbursement.

### **INDEPENDENT AUDITORS**

The City’s financial statements as and for the fiscal year ended June 30, 2011, have been audited by Cherry Bekaert & Holland, L.L.P., Independent Auditors, as set forth in their report, dated December 8, 2011, which is included in Appendix C. The City’s financial statements and the accountants’ reports thereon are available for inspection at the office of the Director of Finance, City Hall, 2400 Washington Avenue, Newport News, Virginia 23607.

Sections of the Comprehensive Annual Financial Report of the City of Newport News, Virginia, for the fiscal year ended June 30, 2011, are presented herein as Appendix C. These financial statements, including the related Notes to Financial Statements, are intended to provide a broad overview of the financial position and operating results of the City’s various funds and activities.

### **CONTINUING DISCLOSURE**

The City will execute and deliver to the purchasers of the Bonds a Continuing Disclosure Certificate, the form of which as Appendix F to this Official Statement, pursuant to which the City will covenant and agree, for the benefit of the holders of the Bonds, consistent with the Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, to provide to the Municipal Securities Rulemaking Board annual financial information and operating data for the City, including audited financial statements of the City, within nine (9) months after the end of each fiscal year beginning on and after July 1, 2011, and, in a timely manner not in excess of ten (10) business days after the occurrence thereof, notices of certain events with respect to the Bonds, whether relating to the City or otherwise, including (i) principal and interest payment delinquencies, (ii) non-payment related defaults, if material, (iii) unscheduled draws on debt service reserves reflecting financial difficulties, (iv) unscheduled draws on credit enhancements reflecting financial difficulties, (v) substitution of credit or liquidity providers, or their failure to perform, (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Bonds, or other material events affecting the

tax status of the Bonds, (vii) modifications to rights of Bondholders, if material, (viii) Bond calls, if material, and tender offers, (ix) defeasances, (x) release, substitution or sale of property securing repayment of the Bonds, if material, (xi) rating changes, (xii) bankruptcy, insolvency, receivership or similar event of the City, (xiii) the consummation of a merger, consolidation or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material, and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material; and, in a timely manner, notice to the Municipal Securities Rulemaking Board of any failure of the City to provide required annual financial information referred to above to the Municipal Securities Rulemaking Board. The continuing obligation of the City to provide annual financial information and notices referred to above will terminate with respect to the Bonds when the Bonds are no longer outstanding. Any failure by the City to comply with the foregoing will not constitute a default with respect to the Bonds.

In the Continuing Disclosure Certificate, the City represents that, in the five previous years, it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of Rule 15c2-12.

#### **OTHER MATTERS**

The references, excerpts and summaries of all documents referred to herein do not purport to be complete statements of the provisions of such documents, and reference is directed to all such documents for full and complete statements of all matters of fact relating to the Bonds, the security for the payment of the Bonds and the rights and obligations of the holders thereof.

Upon request the City will provide annual audited financial statements and other pertinent credit information relevant to the City's outstanding securities, including its Comprehensive Annual Financial Report, and will provide copies to one or more major information providers in the market for State and local government securities. The City intends to provide to Moody's Investors Service and Standard & Poor's Ratings Services appropriate credit information necessary for them to maintain their ratings on the Bonds.

Additional information and copies of the City's published financial statements and budgetary documents may be obtained upon request to the office of Director of Budget and Evaluation, City Hall, 2400 Washington Street, Newport News, Virginia 23607, Telephone (757) 926-8447, or from the City's Financial Advisor, Public Financial Management, Inc., 4350 North Fairfax Drive, Suite 580, Arlington, Virginia 22203, Telephone (703) 741-0175.

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

.....  
MCKINLEY L. PRICE, DDS  
Mayor

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## **APPENDIX A**

### **THE CITY OF NEWPORT NEWS**

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**THE CITY OF NEWPORT NEWS**

**Location**

Newport News is the fourth largest city in the Commonwealth of Virginia and is recognized as a major shipbuilding center and one of the finest deep-water ports on the Atlantic Coast. The City covers approximately 69 square miles and lies at the southeastern tip of a peninsula bounded on the north by the York River and on the south by the James River (the “Lower Peninsula”), approximately seven miles southeast of the City of Williamsburg and approximately five miles north of the City of Norfolk.

First settled in 1607 by English colonists, the City became a self-governing entity in 1880. In 1896, Newport News became an independent city and, as such according to Virginia law, is not subject to taxation by, or liable for indebtedness of, any county, school district or other political subdivision. The City was consolidated with the County of Warwick in 1958, and its current population is approximately 180,719.

**Government**

The City government has been organized according to the Council-Manager form of government since 1920. The City Council, which formulates policy for the administration of the City, is the governing body and consists of seven members. The Mayor of the City is elected on an at-large basis. City residents elect the six other members of City Council by district with two City Council members elected from each of the City’s three districts. The members of the City Council elect the Vice-Mayor to serve a two-year term.

The Council appoints a City Manager to act as Chief Executive and Administrative Officer of the City. He serves at the pleasure of the City Council, carries out its policies, directs business procedures and has the power of appointment and removal of the heads of all administrative departments, as well as other officers and employees of the administration.

The City Council also appoints the City Attorney, who is the legal adviser to the City Council, the City Clerk and members of various boards and commissions established by the City Code.

The operation of the public school system in the City is the responsibility of the City School Board. The members of the School Board are elected by districts to serve four-year staggered terms of office. The Superintendent of Schools is appointed by the School Board. The local share of funds for operating public schools in the City is provided by an appropriation from the City’s General Fund. The School Board, however, is an autonomous policy-making body in matters governing education and, therefore, is independent of City Council.

The Treasurer and the Commissioner of Revenue are local constitutional officers of the Commonwealth elected by the residents of the City. The Treasurer is responsible for the collection, investment and management of all monies payable to the City. The Commissioner of Revenue prepares the assessments of personal property and processes the Commonwealth of Virginia Income Tax returns of City residents. The Sheriff, the Commonwealth’s Attorney and the Clerk of the Circuit Court are also constitutional officers elected by the residents of the City.

**Certain City Officials**

Neil Morgan, 55, was appointed City Manager on February 9, 2010. His duties include leadership and administration of the day-to-day operation of the City and engagement of the City Council, citizen groups and the business community to ensure the delivery of effective services and programs. Mr. Morgan’s tenure with the City spans more than 25 years, during which he has served in a number of leadership roles including Acting City Manager, Deputy City Manager and Assistant City Manager. His efforts have been integral to development and redevelopment initiatives throughout the City and he has provided oversight and guidance to the City’s capital planning process. Mr. Morgan received his undergraduate degree from the University of Virginia in 1979 and a Masters in Public Administration from West Virginia University in 1984.

Collins L. Owens, Jr., 56, was appointed City Attorney effective June 1, 2012. From 1984 until his appointment as City Attorney, Mr. Owens served as Assistant City Attorney, Senior Assistant City Attorney, Deputy City Attorney and Chief Deputy City Attorney for the City of Newport News. Mr. Owens earned a bachelor of arts degree from Old Dominion University in 1978 and a doctorate of juris prudence from the Marshall School of Law of the College of William and Mary in Virginia in 1983. He is a member of the Bar of the United States Supreme Court, the United States Court of Appeals for the Fourth Circuit, the United States District Court for the Eastern District of Virginia, the Virginia Supreme Court, and is licensed to practice law in all Virginia state courts and before all Virginia administrative agencies.

Lisa J. Cipriano, 53, was appointed Interim Director of Budget and Evaluation on June 1, 2009, and appointed Director on October 1, 2009. Ms. Cipriano obtained her Bachelor of Arts degree in Political Science in 1981 from Christopher Newport University, and in 1982 received a Bachelor of Arts degree in Economics from the same school. After beginning her public service career in the state offices of the Secretary of Commerce and Resources and in the Department of Planning and Budget, she began working for the City of Newport News Department of Budget and Evaluation in 1986. She has worked as a Budget Analyst I to Senior Budget Analyst, as Budget Manager, and as departmental Director, with continuous development and focus on the City's operating budget, capital improvement plan and debt management, as well as other program development and city-wide operational assignments.

Stewart Mitchell, 62, was appointed Director of Finance in January, 2012. He received a Bachelor of Science degree in Accounting from the University of North Carolina at Chapel Hill. He received his CPA license in 1973, and worked for a national accounting firm for six years before joining private industry. He spent 28 years with a large national distribution company, retiring as CFO in 2006. He then worked on a corporate restructuring project which was successfully completed in 2011. His career includes Board positions (Audit and Compensation committees) for a publicly held retailer and two large privately held distributors.

Brian L. Ramaley, P.E., 60, Director of the Department of Public Utilities (Waterworks), obtained a Bachelor of Science degree in Civil Engineering from Virginia Polytechnic Institute and State University in 1974, and a Master of Science degree in Environmental Engineering from the University of North Carolina at Chapel Hill in 1979. His career includes leadership roles with a large private consulting engineering firm and with large municipal water utilities. He is a registered professional engineer in the Commonwealth of Virginia. Mr. Ramaley served as the Water Production Manager for Waterworks from 1989 until 1993, prior to his appointment to Acting Assistant Director. He was appointed Waterworks Director in April 1994. He serves on several organizations' Boards of Directors/Trustees and is Chair of USEPA's National Drinking Water Advisory Council.

Florence G. Kingston, 54, who was appointed Director of Development effective January 1, 2003, holds a Bachelor of Science degree from the University of Virginia McIntire School of Commerce, with areas of concentration in Finance and Management Information Systems. In 1988, she completed course work offered by the National Development Council to become a certified Economic Development Finance Professional. Her public service career began in 1979 as a Program Development Technician at Newport News Redevelopment and Housing Authority. She has been with the City's Department of Development since 1981 and has served as a Business Development Specialist, Assistant to the Director-Finance, Assistant Director-Finance, Manager of Financial Services, and Assistant Director.

## **LOCAL GOVERNMENT SERVICES**

In Virginia, cities and counties are independent units of government. Each city and county is a distinct political entity that provides services for the population within its jurisdiction. There are no combined city-county governmental services unless provided for by contractual agreement. The City is, therefore, responsible for the provision of all local governmental services to its residents.

The City provides a wide variety of governmental services to its residents. For budgetary purposes, the City organizes these services into the major program classifications discussed below.

## **Public Education**

The City's school system is directed by a seven-member School Board, the members of which are elected for four-year terms. The local costs of operating the school system are provided by transfers from the General Fund to the School Operating Fund. The School Board is responsible for the presentation of an annual budget request to the City Council. Because the School Board is not empowered to levy taxes or to incur indebtedness, school facilities are provided by appropriations from the General Fund and the issuance of general obligation bonds.

The public school system consists of 37 schools as follows: 24 elementary, 7 middle, one middle/high school combination, and five high schools. The school system also operates four early childhood centers with an enrollment of 1,623. In addition, the school system provides alternative education at five additional sites and adult education services at two other sites. The system employs 4,881 full time equivalent employees that includes grant funded and child nutrition positions. Kindergarten through twelfth grade enrollment for the last ten years is presented (as of March 31 of each year):

### **PUBLIC SCHOOL ENROLLMENT (As of March 31)**

K-12 only (excludes early childhood enrollment)

<u>Year</u>	<u>Enrollment</u>
2002	31,440
2003	31,535
2004	31,358
2005	30,827
2006	30,635
2007	30,218
2008	29,441
2009	29,023
2010	28,615
2011	28,183
2012	27,701

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Source: Newport News Public Schools.

The City also provides financial support for a portion of the operating costs of the New Horizons Regional Education Center. The Center has four campuses, two of which are located in Newport News.

## **Public Safety**

The City provides a number of programs or activities designed to safeguard the life and property of its residents. Included among these are law enforcement and fire and emergency rescue services. Law enforcement is primarily the responsibility of the Police Department, which has authorized 586 persons including 439 sworn officers. Fire and rescue services are provided by the Fire Department comprised of 379 sworn and civilian personnel staffing 11 stations, a regional training center, a Fire Marshal's and Public Education Office, and a Logistics Division. The Department responds to over 28,000 service calls annually and provides myriad services to include medical care and transportation, fire suppression, technical rescue, hazardous materials response, and explosive ordinance disposal. The Fire Department also oversees the City's Division of Emergency Management. The City also operates a juvenile detention facility, a jail and a number of counseling programs.

## **Human Services**

The Department of Human Services provides a variety of human service programs. Human Services provides a wide range of services to the indigent including the determination of eligibility for financial

assistance and basic welfare programs such as Social Work services, Aid to Dependent Children, General Relief, Medicaid, Foster Care and Food Stamps. Through the Cooperative Extension division, the City offers adult education programs that provide training in nutrition, homemaking skills and other domestic interests.

### **Leisure Services**

The City's library system consists of four branch libraries, a bookvan and a law library. Library extension services are provided to nursing homes, the City jail, area hospitals and other community facilities.

The Department of Parks, Recreation and Tourism operates a system of 31 parks encompassing a total of 8,549 acres, and includes a 36-hole golf course, pools, lakes, beaches and historically significant sites. The City offers a broad range of recreational and athletic programs sponsored at various park and school sites.

### **Community Support**

The Fiscal Year 2013 Operating Budget provides financial support of \$8,504,876 to a variety of agencies, both local and regional, that provide services to Newport News residents. These services are broken down into the following ten categories:

	<u>Category</u>	<u>Amount</u>	<u>Percentage</u>
1.	Regional Efforts	\$6,193,624	72.8%
2.	Culture and Tourism	912,055	10.7
3.	Youth Programs	506,580	6.0
4.	Victim Services	183,363	2.2
5.	Indigent Services	168,500	2.0
6.	Youth Education	88,350	1.0
7.	Senior Services	79,800	0.9
8.	Health Emergency Services	51,000	0.6
9.	Military Services	17,370	0.2
10.	Miscellaneous Services	<u>304,234</u>	<u>3.6</u>
		\$8,504,876	100.0%

### **Public Health**

To promote the health of its residents, the City provides financial support to the Newport News Health Department and the Hampton-Newport News Community Services Board. The Health Department provides comprehensive medical and dental care at two facilities, the Peninsula Health Center and the East End Health Facility. In addition, the Health Department performs sanitation and health inspections and provides home health services for home-bound residents who need specialized nursing care. The Hampton-Newport News Community Services Board offers a variety of mental health, mental retardation and substance abuse programs to all City residents.

### **Development, Planning, Public Works, Engineering and Vehicle and Equipment Services**

The Departments of Planning and Development are charged with leading efforts to enhance the City's economic base through the expansion of private employment opportunities, broadening the real estate tax base, revitalizing neighborhoods and preparing and implementing the City's overall Economic Development Plan. The Development Department also manages the Seafood Industrial Park. The Planning Department is responsible for generating and administering policy recommendations and procedures for the efficient and strategically planned development of the City, including the preparation of the City's Comprehensive Plan. In addition to their primary roles as a management resource, these Departments serve as staff to the City Planning Commission, the Newport News Industrial Development Authority and the Newport News Economic Development Authority.

The Department of Public Works provides for the maintenance of all public buildings, streets and highways, bridges, sanitary sewers, storm sewers, and solid waste collection and disposal facilities. The Department

of Engineering provides design and construction inspection oversight of all municipal construction projects. The Department of Vehicle and Equipment Services operates as an Internal Service Fund and maintains the City's vehicle and equipment fleet, purchases replacement units and disposes of surplus vehicles.

### **General Government and Administration**

General Government and Administration encompasses the broad range of managerial, legal, judicial and other basic government services required under the City Charter and State law. Support services offered by these various City departments include financial management, assessments, purchasing, personnel, information technology and printing.

### **Public Utility System**

The City's Department of Public Utilities, widely known as Newport News Waterworks ("Waterworks"), operates one of the three largest water utility systems in the Commonwealth of Virginia. Waterworks supplies treated water to the residents of the City, the cities of Hampton and Poquoson, York County and portions of James City County, as well as several major federal installations. The City is the largest provider of treated water on Virginia's Lower Peninsula with an average daily output of 37 million gallons per day ("mgd"). The City's water system supplies over 130,000 accounts representing a population of just over 400,000 people.

Waterworks is responsible for the operation and maintenance of a regional water supply treatment and distribution system. As of July 1, 2012, the number of authorized full-time positions in the Department was 364. Water rates for the system (including areas outside of the City's boundaries) are established by the City Council and are not subject to mandatory review, regulation or approval by any other governmental entity. Residential water customers are subject to a three-block inclining rate. The lowest level or "lifeline" rate is \$3.08 per hundred cubic feet (hcf) for up to 6 hcf in a two-month billing period. For usage over 6 hcf and up to 50 hcf, the rate is \$3.55 per hcf. For usage above 50 hcf the water rate is \$7.10 per hcf. Heavy industrial customers are charged a two tier declining rate, which recognizes the lower cost to serve them on a per unit basis. The initial industrial rate for up to 40,000 hcf is \$3.55 per hcf. All water sold above 40,000 hcf is \$3.08 per hcf. All other customer groups are charged a general uniform rate of \$3.55 per hcf. These rates became effective on July 1, 2012.

The original water system physical plant properties and distribution facilities were acquired by the City in 1926 from a private water company. Since that time, the Public Utility Fund, which is an enterprise fund, has been financially self-sustaining with its revenues sufficient to fund the system's operation and maintenance expenses, capital expenditures, debt service requirements on the City's water bonds and contributions to the City's General Fund. In addition, the City pays *ad valorem* taxes from the Public Utility Fund to other jurisdictions for water infrastructure located outside of the City's boundaries.

## **CERTAIN FINANCIAL PROCEDURES**

### **Description of Funds**

The City's financial statements include the funds administered by the City Council and the School Board. The accounts of the City are organized on the basis of funds or groups of accounts, each of which is considered to be a separate accounting entity. The transactions in each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund balance, revenues and expenditures. The following is a description of the funds from the City's annual financial statements.

### **General Fund**

Included in the sources of revenue to the General Fund are general property taxes, other local taxes, fines, forfeitures, licenses, permits and privilege fees, the City's share of certain Commonwealth-collected revenues (including a 1% sales tax collected by the Commonwealth and remitted to the City), reimbursement of certain City expenses shared by the Commonwealth and transfers from the Enterprise Funds.

Major General Fund expenditures include the costs of general City government (administration, police, fire, libraries, parks, community support, health, etc.) and transfers to other funds to pay the City's share of operating the City school system, certain capital expenditures and debt service on the City's general government and school bonds.

### **Special Revenue Funds**

The Special Revenue Funds account for the revenues and expenditures related to the operation of the City's school system, community development, street maintenance, economic development, law library and certain federal and State grants. Also accounted for in Special Revenue Funds are monies received through federal and State grant programs, such as Criminal Justice Grants and Community Development Block Grants.

### **Schools**

The public school system derives revenues principally from transfers from the General Fund, funds allocated to the City by the State, federal grants and charges to students.

### **Enterprise Funds**

The operation, maintenance and construction of the regional water system owned and operated by the City are accounted for within this category. Revenues of the system consist principally of charges for water services. The operations of the Newport News Parking Authority are also accounted for within this category.

### **Capital Projects Funds**

The Capital Projects Funds account for the resources used in the acquisition, construction or improvement of the City's major capital facilities, other than those accounted for by Proprietary Funds. Expenditures consist of projects financed by general obligation bonds and City contributions.

### **Internal Service Fund**

The Internal Service Fund accounts for the financing of vehicles and equipment repair services provided to other departments and agencies of the City, except those of the School Operating and Public Utility Funds, and fire fighting vehicles of the Public Safety department.

### **Proprietary Component Units**

The Peninsula Airport Commission and the Economic and Industrial Development Authorities of the City ("NNEDA" or "NNIDA," respectively) are separate legal entities included in the City's financial statements due to financial/legal interdependency with the City.

### **Trust and Agency Funds**

The Trust and Agency Funds account for money and property held by the City in a fiduciary capacity for individuals, private organizations, other governmental entities and other funds. The major fund in this group is the Pension Trust Fund.

### **General Fixed Assets Account Group**

The General Fixed Assets Account Group accounts for all fixed assets of the City except those accounted for in the Proprietary Fund Types and Component Units.



## **General Long-Term Obligation Account Group**

The General Long-Term Obligation Account Group includes an accounting for all general obligation indebtedness of the City excluding that debt accounted for in the Proprietary Fund Types and Component Units.

## **Annual Financial Statements**

Since 1974, the City's financial statements have been examined annually by independent certified public accountants. The most recently completed examination, which was for the fiscal year ended June 30, 2011, was performed by Cherry Bekaert & Holland, L.L.P., Certified Public Accountants.

The accounting policies and procedures utilized by the City are in accordance with generally accepted accounting principles. The City's accounting records are maintained on a modified accrual basis for all governmental fund types and on a full accrual basis for proprietary and fiduciary funds. The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010, the thirty-second consecutive year in which the City received the GFOA Certificate. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

The City's annual financial reports are available for inspection at the office of the Director of Finance, City Hall, 2400 Washington Avenue, Newport News, Virginia 23607.

## **Budgetary Procedure**

The City's Charter requires the City Manager to submit a balanced budget to the City Council at least sixty (60) days prior to the beginning of each fiscal year (July 1). The City Council is required to convene a public hearing regarding the City Manager's proposed budget. The proposed budget, which may be modified by the City Council, is required to be adopted by a majority vote of the City Council members at least fifteen (15) days prior to the beginning of the fiscal year. On the basis of the budget, the City Council appropriates funds for expenditures and establishes tax rates sufficient to produce the revenues estimated to be received.

The annual budget process for a fiscal year begins during the third quarter of the previous fiscal year with the submission by department or agency heads of budget requests to the City Manager. Budget requests are then reviewed by the City Manager and meetings between the City Manager and the department heads are scheduled to discuss agency requests.

The proposed budget of the School Board is submitted to the City Manager for presentation to the City Council. Although the City Manager may make recommendations in his proposed budget regarding the total appropriation for the school system, he may not alter the School Board's request. The City Council makes an annual appropriation to the School Board and authorizes capital projects for the school system but is prohibited from exercising any control regarding how funds are expended.

Upon receipt of the proposed budget of the School Board, the City Manager prepares an initial budget for submission to the City Council and proposes tax rates sufficient to produce revenues needed to meet expenditures contemplated in the initial budget. After work sessions with the City Council and public hearings, the budget is amended and adopted in final form. Tax rates are established prior to the beginning of the fiscal year for which the budget is prepared. During the fiscal year, quarterly reviews of revenues and expenditures are undertaken by the Department of Budget and Evaluation for presentation by the City Manager to the City Council.

## **Investment Policy**

In accordance with the Code of Virginia and other applicable law, including regulations, the City Investment Policy (the "Policy") permits investments in obligations of the United States or agencies thereof,

obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, bankers’ acceptances, repurchase agreements, the State Treasurer’s Local Government Investment Pool, the State Non-Arbitrage Program (“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 deposit 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 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 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 also avoid an excessive concentration in any type of investment and excessive number of investment transactions with any financial institution or broker/dealer.

## **GOVERNMENTAL FUNDS REVENUES AND EXPENDITURES**

The General Fund is the primary operating fund maintained by the City to account for revenue derived from City property taxes, other local taxes, fines, forfeitures, licenses, fees, permits, reimbursement of certain City expenses shared by the Commonwealth, certain Commonwealth-collected revenue and transfers from the Enterprise Fund. General Governmental expenditures include the costs of general City government, transfers to the School Operating Fund to pay the local share of operating the City’s public school system, certain capital expenditures and transfers to the Debt Service Fund to provide for the payment of debt service on the City’s general obligation general improvement bonds.

The following is a discussion of the City’s General Governmental revenue structure and major classifications of General Governmental expenditures. See Appendix C for the financial statements of the City relating to the General Fund for the fiscal year ended June 30, 2011.

### **Revenues for the Fiscal Year Ended June 30, 2011**

**General Property Taxes** – An annual *ad valorem* tax is levied by the City Council on the assessed value of real and personal property located within the City as of July 1 and January 1, respectively, in the fiscal year in which the tax is due. The ratio of the assessed value of real property to its estimated market value is 100%. Real property taxes and personal property taxes are payable in two installments on December 5 and June 5 of the fiscal year in which they are levied. The penalty for late payment is 10% of the amount of taxes due. Interest on delinquent taxes and penalties accrues at a rate of 10% per annum. General property taxes (including penalties for late payment of prior years’ taxes) represented 47.4% of total Governmental Funds revenue.

**Other Local Taxes** – The City levies various other local taxes including sales and use tax, business, professional and occupational license taxes, motor vehicle license taxes, meal taxes, a recordation tax and a tax on consumer utility bills. Other local taxes represented 18.3% of total Governmental Funds revenues.

**License and Permit Fees** – The City collects fees for a variety of building and zoning permits, certificates of occupancy and for the performance of certain activities in the City. In addition, various fees must be paid for services provided by certain City departments. These receipts represented 0.7% of total Governmental Funds revenues.

**Intergovernmental Revenue and Recovered Costs** – The City receives revenue from the Commonwealth of Virginia for a portion of shared categorical expenses including certain expenditures for social services and the operation of constitutional offices. The City also receives a significant amount of aid from the Commonwealth in support of the public school system; however, such revenues are credited directly to the School

Operating Fund and are not reflected in the Governmental Funds revenues. Recovered costs and revenues from the Commonwealth of Virginia represented 20.8% of total Governmental Funds revenues.

**Other Revenues** – Other sources of revenue represent 12.8% of total Governmental Funds revenues and include fines and forfeitures, interest and rents, certain charges for services rendered, and miscellaneous.

#### **Expenditures for the Fiscal Year Ended June 30, 2011**

**Costs of General City Government** – Payments for the costs of the operation of the City government include expenditures for public safety, public works, general and judicial administration, health and welfares, community development and recreation and culture. This classification represented 60.5% of total Governmental funds expenditures.

**Transfer to Newport News School Board** – The City transfers money from the General Fund to the Newport News School Board to pay the City's share of the cost of operating the public school system. Education represented 22.5% of the Governmental Funds expenditures.

**Transfers to Debt Service Fund** – Debt service requirements on City general government and school bonds are paid by transfers from the General Fund and other funds to the Debt Service Fund. Such transfers represented 11.7% of total Governmental Funds expenditures.

**Capital Outlay** – The City has elected to finance certain capital projects and bond issuance costs from current revenues. These costs were 5.3% of the total Governmental Funds expenditures.

**FIVE YEAR SUMMARY OF GENERAL FUND  
REVENUES AND EXPENDITURES**

The financial data presented below summarize for the five fiscal years ended June 30, 2011, General Fund revenues and expenditures. The information below has been compiled from the audited financial statements of the City for those respective fiscal years.

**GENERAL FUND REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
(000's omitted)**

The following table was compiled from the City's audited financial statements.

	<b>Fiscal Years Ended June 30</b>				
	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>
Revenues:					
General Property Taxes .....	\$208,128	\$219,316	\$233,632	\$236,184	\$230,860
Other Local Taxes .....	90,412	93,161	89,625	88,596	89,063
Licenses and Permits .....	3,315	3,672	3,170	2,846	3,372
Fines and Forfeitures .....	1,826	1,881	1,981	2,213	2,332
Intergovernmental .....	48,309	49,350	48,994	48,630	48,210
Charges for Services.....	16,697	6,146	16,805	17,647	17,651
Interests and Rent .....	6,051	5,562	3,277	2,363	2,260
Recovered Costs .....	7,690	7,990	7,871	5,814	6,210
Miscellaneous.....	<u>5,264</u>	<u>4,691</u>	<u>3,796</u>	<u>3,325</u>	<u>3,448</u>
Total Revenues.....	387,692	401,769	409,151	407,618	403,406
Expenditures:					
General Government.....	48,520	49,248	51,785	51,126	49,205
Judicial Administration.....	5,910	6,218	6,148	6,236	6,592
Public Safety.....	95,444	100,690	105,554	104,198	108,233
Public Works .....	15,899	17,391	15,908	12,850	14,229
Health and Welfare .....	38,040	40,395	41,281	40,976	41,538
Education.....	104,735	113,718	115,386	114,200	109,200
Parks Recreation and Culture .....	26,213	27,849	26,673	25,766	26,813
Community Development.....	<u>4,796</u>	<u>4,767</u>	<u>5,073</u>	<u>5,231</u>	<u>5,063</u>
Total Expenditures .....	339,557	360,276	367,808	360,583	360,873
Excess (Deficiency) of Revenues					
Over (Under) Expenditures .....	<u>48,135</u>	<u>41,493</u>	<u>41,343</u>	<u>47,035</u>	<u>42,532</u>
Other Financing Sources (Uses):					
Transfers In.....	9,110	10,000	12,615	10,000	10,500
Transfers Out.....	<u>(49,676)</u>	<u>(63,392)</u>	<u>(48,312)</u>	<u>(52,721)</u>	<u>(66,300)</u>
Total Other Financing Sources (Uses).....	<u>(40,566)</u>	<u>(53,392)</u>	<u>(35,697)</u>	<u>(42,721)</u>	<u>(55,800)</u>
Net Changes in Fund Balance.....	7,569	(11,899)	5,646	4,314	(13,268)
Previous Year Fund Balance.....	<u>98,043</u>	<u>105,612</u>	<u>93,713</u>	<u>99,359</u>	<u>103,673</u>
Fund Balance at June 30 .....	<u>\$105,612</u>	<u>\$ 93,713</u>	<u>\$ 99,359</u>	<u>\$103,673</u>	<u>\$90,405</u>

**Last Five Fiscal Years**  
**(Modified accrual basis of accounting)**  
**(in thousands of dollars)**

	<b>Fiscal Year</b>				
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Revenues</b>					
General Property Taxes	\$208,128	\$219,316	\$233,632	\$236,184	\$230,860
Other Local Taxes	90,413	93,162	89,625	88,596	89,063
Licenses and Permits	3,315	3,672	3,170	2,846	3,372
Fines and Forfeitures	1,826	1,881	1,981	2,213	2,332
Interest and Rents	6,437	6,147	3,579	2,653	2,392
Charges for Services	44,484	46,403	51,003	55,523	54,057
Recovered Costs	7,690	8,718	7,948	5,814	6,267
Intergovernmental	94,477	96,745	95,048	92,883	94,980
Miscellaneous	5,411	4,964	3,821	3,348	3,475
Total Revenues	\$462,181	\$481,008	\$489,807	\$490,060	\$486,798
<b>Expenditures</b>					
General Government	\$48,637	\$49,368	\$51,921	\$51,254	\$49,331
Judicial Administration	5,910	6,218	6,148	6,236	6,592
Public Safety	99,472	105,008	108,467	108,877	114,075
Public Works	51,798	56,174	57,178	58,764	62,153
Health and Welfare	50,487	52,892	52,154	49,309	48,918
Education	121,050	121,770	119,088	119,581	118,262
Parks Recreation and Culture	26,384	28,174	27,082	25,976	26,922
Community Development	7,140	8,899	7,439	8,959	10,852
Non-Departmental	-	-	-	-	-
Debt Service:					
Principal	31,333	35,742	34,422	33,444	33,675
Interest	21,861	24,792	26,054	24,356	28,100
Capital Outlay	37,535	33,615	21,858	27,186	27,791
Bond Issuance Cost	370	-	-	-	-
Total Expenditures	\$501,977	\$522,651	\$511,811	\$513,942	\$526,671

## **UNAUDITED FINANCIAL RESULTS FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The financial data in this Official Statement is excerpted from the published audited Comprehensive Annual Financial Report (the "CAFR") for fiscal year ended June 30, 2011. The audited CAFR for fiscal year ended June 30, 2012 is expected to be published in December 2012. The following is a summary of fiscal year 2012 General Fund financial data that is preliminary, unaudited, subject to change due to internal adjustments and pending the results of the independent audit.

The City estimates that General Fund Revenue will be \$415 million, or equal to the final 2012 budget. The largest variances were attributable to increases in consumer sensitive local taxes.

Expenditures will be \$408 million, or approximately 1.7% lower than the final 2012 budget. The reductions in the operating budget were achieved through savings in imposing a hiring freeze on vacant positions, across-the-board reductions in expenditures, the mid-fiscal year decision by the Commonwealth of Virginia to resume the Human Services day care program costs, and specific departments/offices absorbing Commonwealth reductions. Combining the budgeted revenues and lower than expected expenditures, the City preliminarily expects to end the fiscal year ended June 30, 2012 with a General Fund positive variance of approximately \$7 million, prior to year-end adjustments.

### **GENERAL FUND BUDGETS FOR FISCAL YEARS 2011 - 2013**

The City's Fiscal Year 2013 adopted General Fund Budget is \$414.52 million, which reflects a decrease of \$59 thousand, or 0.01% to the Fiscal Year 2012 adopted General Fund Budget of \$414.58 million.

The General Fund is the principal fund of the City and its revenues are derived from a variety of sources. General Property Taxes and Other Local Taxes make up \$318.7 million, or 77%, of the \$415.52 million budgeted for Fiscal Year 2013. No Adjustments to Real Estate or Machinery and Tools taxes were considered; however, minor increases to several taxes and fees including Personal Property, Meals, Cigarettes and others were incorporated in the Fiscal Year 2013 budget. A summary of General Fund Revenues is shown below

General Fund Expenditures include most of the City's basic services including public safety, public works, health and welfare, parks, recreation and culture and general administration. The General Fund also makes significant transfers to the Public Education and Debt Service Funds. Public education, public safety, health and welfare, corrections and detention and non-user fee supported public works functions make up \$263.3 million or 64% of General Fund Expenditures. A summary of General Fund Expenditures for Fiscal Years 2011 - 2013 is shown below. Also shown below is a comparison of the City's major operating funds for Fiscal Years 2011 - 2013. The \$601.9 million for Fiscal Year 2013 represents 80.6% of the total City Budget of \$747.2 million.

**BUDGETED GENERAL FUND REVENUES BY SOURCE**  
**(000's Omitted)**

	<b><u>Adopted</u></b> <b><u>2011</u></b>	<b><u>Adopted</u></b> <b><u>2012</u></b>	<b><u>Adopted</u></b> <b><u>2013</u></b>	<b><u>% Change</u></b> <b><u>FY12-FY13</u></b>
General Property Taxes	\$227,816	\$227,252	\$225,118	(0.9)
Other Local Taxes	85,506	87,840	93,827	6.8
Permits, Fees and Regulatory Licenses	2,498	3,057	3,410	11.5
Fines and Forfeitures	1,987	2,224	3,839	72.6
Use of Money and Property	2,337	2,427	2,290	(5.6)
Charges for Services	5,090	5,968	6,486	8.7
Miscellaneous	16,768	17,216	17,665	2.6
Recovered Costs	9,353	9,538	9,916	4.0
Non-Categorical Aid	245	677	741	9.5
Shared Expenses	9,385	9,233	9,120	(1.2)
Categorical Aid	38,361	37,972	31,940	(15.9)
Non-Revenue Receipts	10,500	10,641	10,641	0.0
Transfers In From Other Funds	<u>554</u>	<u>545</u>	<u>529</u>	<u>(2.9)</u>
Total	<b>\$411,000</b>	<b>\$414,580</b>	<b>\$414,521</b>	<b>(0.01)</b>

**BUDGETED GENERAL FUND EXPENDITURES BY FUNCTION**  
(000's Omitted)

	<u>Adopted 2011</u>	<u>Adopted 2012</u>	<u>Adopted 2013</u>	<u>% Change FY12-FY13</u>
Legislative	\$707	\$686	\$611	(10.9)
General Administration	5,024	5,082	4,501	(11.4)
Financial	10,578	10,836	9,441	(12.9)
Information Technology	8,434	8,453	7,434	(12.1)
Board of Elections	478	469	416	(11.3)
Judicial Administration	3,155	2,992	2,639	(11.8)
Commonwealth Attorney	3,733	3,819	3,322	(13.0)
Public Safety	76,750	80,105	67,787	(15.4)
Corrections and Detention	32,114	32,201	28,446	(11.7)
Inspections	2,904	2,945	2,555	(13.2)
Engineering	7,210	7,305	5,917	(19.0)
Public Works	20,808	20,686	18,254	(11.8)
Health and Welfare	46,927	46,644	35,438	(24.0)
Parks, Recreation and Cultural	18,378	18,255	17,222	(5.7)
Community Development	2,806	2,790	2,724	(2.4)
Nondepartmental*	18,407	16,905	51,279	203.3
Community Support	7,672	7,864	8,505	8.2
Local Support to Schools	109,200	112,200	113,400	1.1
Debt Service	<u>35,173</u>	<u>34,342</u>	<u>34,630</u>	<u>0.8</u>
<b>Total</b>	<b>\$411,000</b>	<b>\$414,580</b>	<b>\$414,521</b>	<b>(0.01)</b>

\* The large increase in FY 2013 Nondepartmental is primarily due to Retirement expense being moved from individual departments to this one location

**BUDGET COMPARISON OF SELECTED MAJOR FUNDS**  
(000's Omitted)

	<u>Adopted 2011</u>	<u>Adopted 2012</u>	<u>Adopted 2013</u>	<u>% Change FY12-FY13</u>
Public Education	\$278,220	\$279,026	\$281,041	0.7
Public Utilities (Waterworks)	83,598	82,843	81,400	(1.7)
Debt Service	57,933	57,020	57,747	1.3
Pension Trust	52,850	61,210	63,633	4.0
Post Retirement Health	11,313	11,143	10,475	(6.0)
Solid Waste	12,764	13,233	13,289	0.4
Street Maintenance	13,574	14,194	14,706	3.6
Vehicle and Equipment Services	9,894	11,986	12,952	8.1
Wastewater	17,497	17,864	18,845	5.5
Economic/Industrial Development	24,085	24,391	22,647	(7.2)
Stormwater Management	10,917	10,855	12,915	19.0
Recreation Revolving	4,904	4,668	4,708	0.9
Golf Course	1,697	1,738	1,796	3.3
Self-Insurance	<u>5,950</u>	<u>5,898</u>	<u>5,739</u>	<u>(2.7)</u>
<b>Total</b>	<b>\$585,196</b>	<b>\$596,069</b>	<b>\$601,893</b>	<b>1.0</b>



## PUBLIC UTILITY FUND

The financial results of the City of Newport News Waterworks are accounted for in an enterprise fund, designated the "Public Utility Fund", which is included in the City's comprehensive annual financial report. The following data summarizes the financial operations of the Public Utility Fund for the fiscal years 2007 through 2011. For further detail, reference is made to the City's general purpose financial statements for the fiscal year ended June 30, 2011, which are included herein as Appendix C.

### City of Newport News, Virginia Public Utility Fund Summary of Revenues, Expenses and Changes in Net Assets (000's Omitted)

	Fiscal Year Ended June 30				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operating Revenues:					
Water Sales	\$ 59,071	\$ 62,313	\$ 60,139	\$ 59,387	\$ 60,704
Charges for Services	11,046	11,403	11,619	10,702	11,138
Miscellaneous	<u>1,791</u>	<u>2,288</u>	<u>2,059</u>	<u>2,630</u>	<u>2,655</u>
Total Operating Revenues	71,908	76,004	73,817	72,719	74,497
Operating Expenses:					
Personal Services	19,163	20,189	21,045	20,787	21,724
Contractual Services	7,792	10,653	11,228	11,209	10,760
Internal Services	1,487	1,607	1,377	1,518	1,371
Materials and Supplies	4,205	4,278	4,934	5,440	4,972
Depreciation	12,486	13,472	14,169	14,162	14,074
Other	<u>3,827</u>	<u>3,328</u>	<u>3,279</u>	<u>3,742</u>	<u>3,540</u>
Total Operating Expenses	48,960	53,527	56,032	56,858	56,441
Operating Income (loss)	22,948	22,477	17,785	15,861	18,056
Nonoperating Revenues (expenses):					
Interest Revenue	1,926	2,988	1,941	550	235
Gain (loss) on Disposal of Assets	62	170	2,255	157	(249)
Meter & Service Connection Fees	3,488	4,950	8,132	6,532	—
Amortization, Cost of Issuing Bonds	1,161	(157)	(157)	(173)	(154)
Loss on Long-Term Debt	(1,180)	(1,180)	(1,898)	(1,135)	(729)
Interest Expense	<u>(5,397)</u>	<u>(5,912)</u>	<u>(6,653)</u>	<u>(7,220)</u>	<u>(6,957)</u>
Total Non-operating Revenues (expenses)	<u>60</u>	<u>859</u>	<u>3,620</u>	<u>(1,289)</u>	<u>(7,854)</u>
Income (loss) Before Capital Contributions					
Extraordinary Item and Transfers Out	<u>23,008</u>	<u>23,336</u>	<u>21,405</u>	<u>14,572</u>	<u>10,202</u>
Capital Contributions for Capital Assets					4,810
Extraordinary Item:					
Loss on Reservoir Project Termination				(52,612)	—
Transfers Out	9,110	10,000	10,000	10,000	(10,000)
Change in Net Assets	13,898	13,336	11,405	(48,040)	5,012
Net Assets at Previous June 30	<u>279,825</u>	<u>293,723</u>	<u>306,905</u>	<u>318,310</u>	<u>270,270</u>
Net Assets at June 30	<u>\$293,723</u>	<u>\$307,059</u>	<u>\$318,310</u>	<u>\$270,270</u>	<u>\$275,282</u>

**Public Utility Fund  
Debt Service Coverage  
(000's Omitted)**

<b><u>Fiscal Year Ended June 30</u></b>	<b><u>Income Available For Debt Service<sup>(1)</sup></u></b>	<b><u>Debt Service</u></b>	<b><u>Debt Service Coverage</u></b>
2002.....	\$32,649	\$13,841	2.36 times
2003.....	29,363	14,789	1.99
2004.....	33,646	17,584	1.91
2005.....	35,545	13,103	2.71
2006.....	38,827	16,814	2.31
2007.....	37,360	18,013	2.07
2008.....	38,937	20,350	1.91
2009.....	33,894	22,116	1.53
2010 <sup>(2)</sup> .....	30,572	40,040	0.76
2011.....	32,666	22,181	1.47

<sup>(1)</sup> Income (loss) before capital contributions and transfers out plus depreciation and interest expense minus non-operating income.

<sup>(2)</sup> Fiscal Year 2010 debt service included prepayment of \$20 million revenue bond principal that was due in Fiscal Year 2013. Without this prepayment, debt service coverage would have been 1.53 times.

Source: FY 2011 Comprehensive Annual Financial Report.

**DEMOGRAPHIC AND ECONOMIC STATISTICS**

The standard metropolitan statistical area that includes the City consists of the cities of Hampton, Virginia Beach, Norfolk, Portsmouth, Chesapeake, Suffolk, Williamsburg and Poquoson, and the counties of Isle of Wight, James City, Matthews, York and Gloucester. Recent population, per capital income, median age and school enrollment statistics for the City are shown below:

<b><u>Fiscal Year</u></b>	<b><u>Population</u></b>	<b><u>Per Capita Income</u></b>	<b><u>Median Age</u></b>	<b><u>School Enrollment</u></b>	<b><u>Unemployment Rate</u></b>
2002	180,305	\$22,849	32	31,440	4.8%
2003	181,640	23,654	32	31,535	4.9
2004	185,200	23,986	32	31,358	5.2
2005	185,240	25,233	32	30,827	4.8
2006	186,000	26,782	32	30,635	4.2
2007	186,000	28,436	33	30,218	3.4
2008	187,200	28,990	34	29,441	4.0
2009	193,212	30,423	33	29,023	6.5
2010	193,172	30,423	32	28,610	8.0
2011	180,719	31,120	32	28,183	7.6

Source: FY 2011 Comprehensive Annual Financial Report (S-14).

## **Transportation**

The following is a brief description of transportation facilities and services that serve the City.

### *Highways*

Interstate 64/664 passes through the 25-mile length of the City with nine exits within the City. Interstate 64 connects Newport News to Richmond, 76 miles northwest, where it meets Interstate 95, and with the Southside of the Norfolk-Virginia Beach-Newport News metropolitan area by means of the Hampton Roads Bridge-Tunnel and the Interstate 664 Monitor-Merrimac Memorial Bridge Tunnel. U.S. Route 17 passes through the City on its course along the entire Eastern Seaboard and U.S. Route 60 links the City with Williamsburg providing an alternate route to Interstate 64.

Interstate 664 connects the City's downtown, shipyard and ports, including the Seafood Industrial Park, with Interstate 64 and thus to Norfolk and Richmond (75 minutes travel time). The I-664 bridge-tunnel connects downtown Newport News to Portsmouth and the Suffolk and western Chesapeake regions and provides an alternate route to Norfolk. This bridge/tunnel completes the interstate beltway connecting downtown Newport News with all the cities of Hampton Roads.

### *Truck and Bus Service*

Freight service is provided by five motor freight-trucking firms that serve the Lower Peninsula area. Intercity bus service is provided by Greyhound with a terminal in Newport News. The current schedule provides ten northbound and five southbound trips from Newport News daily. Hampton Roads Transit, a regional partnership for local bus service, serves more than 327,000 Lower Peninsula passengers each month, with 370 buses traveling seventeen routes in Newport News.

### *Railroads*

Newport News is the eastern freight terminus for more than 50 CSX trains weekly. The CSX mainline serves the Peninsula through spur lines and transports all the freight carried by rail in the area. The CSX rail system is one of the nation's largest railways, serving the South, Midwest and East with more than 26,000 miles of track.

The CSX rail system offers break-bulk cargo services to Newport News Marine Terminal (NNMT). Container cargo is moved to NNMT by the Virginia Port Authority from the nearby Norfolk Southern container terminal. The CSX railroad also serves the City's two coal loading terminals.

Amtrak provides daily passenger service from Newport News to Richmond, Washington, New York and Boston. Intermediate service to more than a dozen other locations is also provided.

### *Air Transport Service*

Newport News is served by the Newport News/Williamsburg International Airport, which is located in Newport News. Air passenger service is provided by several carriers including AirTran, Delta Express and USAir Express. The Peninsula Airport Commission, which operates the airport, constructed a \$26 million terminal at the airport in November 1992, financed by \$17.5 million of bonds and notes issued by or guaranteed by the City of Newport News, as well as federal and State construction grants. After growing by double digit percentages for a number of years, air passenger traffic has remained relatively flat since 2005. The Airport has opened a new parking garage and plans further expansions.

In addition to the services provided at the Newport News/Williamsburg International Airport, City residents are also served by the Norfolk International Airport, which is less than 40 minutes away by automobile. Norfolk International provides national and international service with a dozen trunk and commuter airlines.

## **Local Economy**

The Newport News economy has shown long-term trends that remain positive and, though some projects have been delayed by the recent downturn in the national economy, other initiatives are moving forward. Multiple economic development announcements that were made in 2008 helped place a floor under the Newport News economy and subsequent economic development announcements have continued to build the City's economic foundation. Newport News was affected in certain respects by the macroeconomic recession of 2007-2010, particularly with regard to the housing market, retail sales and overall labor market trends.

Over the five-year period ending in May 2012 (the latest data available), unemployment in Newport News averaged 6.7% annually, greater than the averages of the Hampton Roads region (6.0%) and Virginia (5.7%), but lower than the national average of 8.0%. The most challenging period was experienced from June 2009 to May 2011, when year-over-year unemployment peaked at 8.0%. The city and region have shown signs of recovery in that 2011-2012 year-over-year rates have decreased to 7.5% and 6.8%, respectively. Additional evidence of a strengthening economy is the increase in the labor participation rate (the percentage of the population 16 years or older who are employed or unemployed but looking for work). According to the Census' American Community Survey, the labor participation rate in 2010 was 70.8%, an increase from 68.2% in 2009.

Other metrics also point to a local economy with staying power. Over the period of 2009 to 2011, unemployment insurance payments in Newport News decreased almost 30%, representing over \$6.6 million. During this same period, Newport News witnessed an 11% increase in small business start-ups.

### *Canon Virginia*

As stated above, significant economic development events of 2008 helped stabilize the Newport News economy and have begun to bear fruit. On May 1, 2008, Canon Virginia announced a major expansion of its facility in Newport News. At \$623.5 million in real estate and machinery investment and 1,035 new jobs to be created over the next four years, this was the largest economic development announcement in the history of Newport News. Canon completed its new 700,000 square foot plant at its campus in the Oyster Point area in one year, dedicating the building on May 1, 2009. The first of four robotic machinery lines for making toner cartridges is now operational and a second line is being installed. Additionally, Canon Virginia continues to expand its Canon consumer electronics warranty fulfillment and repair operations, host training activities for Canon USA and engage in additional research and development. The jobs to be added, which will come on line gradually through 2012, are more technologically complex than work performed by Canon's current workforce and average wages are the average prevailing wage in Newport News. Canon is on track to meet its employment goals.

To prevail against global competition within the Canon family for this investment, Newport News Economic Development Authority (EDA) agreed to deliver a series of grants over a six-year period equal to 50% of net new taxes paid by Canon to the City. Because these grants are staggered, being initiated as each new round of Canon's investment appears on the City's tax rolls, the incentive period will extend from FY 2010 through FY 2019. During this period, the EDA expects to pay about \$17 million in grants to Canon Virginia; the City expects to retain more than \$28 million in net new taxes after paying out these grants and to be receiving almost \$5.7 million in additional new tax revenue annually after the incentive period ends.

### *Areva NP*

On October 23, 2008, AREVA NP and Northrop Grumman Shipbuilding (now Huntington Ingalls Industries, Inc.) announced a joint Venture, AREVA Newport News, to be located in the North Yard of the Newport News Shipyard (the "Shipyard"). AREVA Newport News would build heavy modular components to be shipped to nuclear power plants. While significant site and foundation work has been completed, the AREVA project with Newport News Shipbuilding is currently on hold pending improvements in the national and international economic environments and improvements in the U.S. nuclear regulatory environment.

### *Continental Automotive Systems*

On December 15, 2008, Continental Automotive Systems announced that it would consolidate its diesel and gas fuel injection systems operations at its Newport News plant, closing its facilities near Columbia, South Carolina. Continental's decision in favor of Newport News retains the plant's existing jobs and more than \$1.5 million in annual machinery and tools tax revenue for the City. Although the plant has experienced layoffs due to the effect of the recession on the auto industry, the plant still employs almost 500 workers and is expected to hire additional employees as demand for its product increases with the expanding economy.

As a result of the plant consolidation, Continental has invested approximately \$30 million in new machinery and equipment at the Newport News plant. To retain and attract Continental's investment in Newport News, the EDA will provide a series of grants to the company during the next six years equal to taxes paid by the company on net new real estate and machinery. The amount of grant payments in proportion to net new taxes paid is expected to decline during the last three years of the incentive period, unless the plant expands significantly beyond current expectations. Nevertheless, action by the EDA helped prevent the City from experiencing a plant closure and related job loss during the height of the economic downturn and also avoided the attendant negative spill-over effects that such a closure would have entailed.

### *Northrop Grumman (now Huntington Ingalls Industries, Inc.)*

On December 23, 2008, Northrop Grumman Shipbuilding (now Huntington Ingalls Industries, Inc.) announced that, along with General Dynamics, it had received a \$14 billion contract to deliver eight Virginia Class submarines with production accelerating to two submarines under construction simultaneously. This round of submarine production began in 2011 and is expected to continue through 2019. In preparation, about \$300 million is being invested at the Newport News facilities and at peak production, there could be as many as 2,200 new jobs added to the Shipyard's workforce. This announcement, plus the continuation of the nuclear aircraft carrier construction and maintenance program, will stabilize the Shipyard's employment levels in Newport News at least through the end of the next decade. That is not to say that there will not be minor fluctuations in employment levels during this period of relative growth for the Shipyard. Layoffs may occur periodically as the Shipyard adjusts its workforce to fit current production needs.

In July, 2010, Northrop Grumman announced its intention to sell or to spin off its shipbuilding division. Subsequently, the decision was made to spin off, rather than sell, the division. This decision follows the consolidation of Northrop Grumman's Newport News and Gulf shipbuilding operations into a single corporate division led by executives in Newport News. The spinoff was accomplished on March 30, 2011 and the new entity is named Huntington Ingalls Industries, Inc. ("Huntington Ingalls"). Long-term contracts and planned purchases by the Navy are expected to keep the new entity strong and a continuing contributor to the economy of Newport News and the Hampton Roads region.

In September 2010, Northrop Grumman Shipbuilding (now Huntington Ingalls) took ownership of the Herbert H. Bateman, Sr. Virginia Advanced Shipbuilding and Carrier Integration Center (VASCIC). VASCIC, a 226,500 office/research/prototyping facility with a 633-car parking garage, was built by the Newport News Industrial Development Authority (IDA) in 2001, financed with funds appropriated by the Virginia General Assembly and leased to the Shipyard. VASCIC is key to the Shipyard's ability to obtain design and production efficiencies by developing modular construction techniques and through extensive modeling and simulation. The facility transferred to Northrop Grumman Shipbuilding's ownership with the final redemption of the Series 2000 bonds used to finance it.

### *Shipyard Apprentice School*

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

Downtown Newport News and additional support of training activities. Receipt of the grant is contingent on the Shipyard's successful fulfillment of a required investment of at least \$300 million in capital improvements (between January 2009 and December 2011) and creating and maintaining 1,000 new full-time jobs in the Virginia Class Submarine Program between January 2009 and December 2015, with annual targets and certifications (the first being 81 new jobs by December 2011, which was successfully completed). The first Grant payment will be paid by the Commonwealth in July 2012. Remaining Grant payments will be paid as annual job creation targets and certifications are met (276 in 2012, 500 in 2013, 750 in 2014 and 1,000 in 2015). In addition to capital investment and job creation, the Grant also requires that the Shipyard maintains an accredited apprentice program with an annual average enrollment of at least 750 students, with an articulation agreement(s) with local community colleges. The Shipyard must maintain a level of Training Expenses in each calendar of no less than \$52,957,919.

Funding for a new Apprentice School is expected to leverage an additional \$43 million in private investment in Downtown Newport News. The Shipyard has selected Armada Hoffler, an experienced developer headquartered in Virginia Beach, to build and own a mixed-use development centered on the Apprentice School. Under a Development Agreement executed February 29, 2012 between the Shipyard, Armada Hoffler and the EDA, the Apprentice School development will be built along three city blocks near the Shipyard's South Gate. The development will consist of the 80,000 square-foot Apprentice School, 174 market-rate workforce rental units that can also house Apprentice School students, a 380-car parking garage and over 30,000 square feet of ground floor retail space.

This development is the next step in a downtown Newport News ("Downtown") revitalization that began in the mid-1990s. It follows the construction of a new 30,000 square foot privately-owned federal courthouse, a 12,750 square foot privately-owned office building being leased to the Virginia Probation Office and completion of 130 new cluster-townhouse units for U.S. Navy personnel. The latter development, HomePort, is the first new residential construction in the downtown in two decades and is a handsome addition to the Downtown's built environment. It is currently assessed at almost \$14 million. Adding the Apprentice School project to the momentum that is already occurring in the Downtown is expected to result in continued new private investment in the future.

On February 28, 2012, the City Council adopted a resolution approving a moral obligation agreement for the benefit of the IDA in support of an Advanced Shipbuilding Training Facility and adjacent, related, high quality mixed-use development. The City agreed to pay the IDA, subject to annual appropriation, the rental payments payable by the IDA under a Parking Structure Lease. These lease payments are not expected to exceed \$1,500,000 for the first five years, and \$1,600,000 for the remainder of the lease term which shall not exceed fifteen (15) years. At the end of the lease term, or earlier at the IDA's option under the Parking Structure Lease, the parking facilities shall be conveyed to the IDA.

The development is located between 31st and 34th streets and is expected to revitalize Downtown Newport News by enticing more people and businesses to move into the area. Groundbreaking occurred on May 3, 2012, and it is anticipated that the Apprentice School will open in December 2013.

#### *Newport News Shipyard and the Navy*

The Shipyard continues to receive contracts for building nuclear aircraft carriers and submarines, as well as refueling, overhaul and repair contracts. With the last of the Nimitz-class nuclear aircraft carriers, the *George Bush*, delivered, work continues on the first ship in a new class of carriers, the *Gerald R. Ford*. The *Ford* is expected to be delivered in 2015 and cost \$7 billion to construct. Even as construction has begun, the Shipyard continues to receive contracts to continue the design and engineering work on the vessel, with almost \$750 million in contracts being received during the last two years. The ten carriers planned in the Ford class will replace the existing Nimitz-class fleet over the coming decades. The Navy reaffirmed its commitment to an 11-carrier fleet over the next three decades, ensuring a steady stream of contracts for work for which Newport News is the sole source provider.

The Navy has also reaffirmed its commitment to purchase 25 nuclear submarines over the next 30 years, at a total estimated cost of \$63 billion in current dollars. As stated earlier, two Virginia-class submarines will now be built simultaneously, with construction on each submarine shared by Huntington Ingalls and Electric Boat,

and the Shipyard is in the process of making \$300 million in capital improvements to handle the two-submarine program, with this work expected to be completed in late 2012. Huntington Ingalls expects the accelerated submarine construction program to create at least 1,000 additional jobs (although some jobs may be filled through reassignment of existing personnel to manage workflow efficiently and peak employment levels may be significantly higher). The Shipyard is currently constructing the Virginia-class submarine *U.S.S. John Warner*, which will be delivered in 2015. The two-submarine construction program began in 2011.

New ship construction is not the only source of job creation for the Newport News shipyard. Repair, overhaul and nuclear reactor refueling are a steady and dependable part of the Shipyard's stream of contracts. The contingencies involved in work on existing naval vessels means that contracts (and the work that this provides for Shipyard employees) are often extended or increased. For instance, the life extension work on the *U.S.S. Enterprise*, which began as a \$474 million contract, was completed last year at a cost of \$655 million, mostly due to changes in Navy specifications and unforeseen maintenance and repair issues. The decommissioning of the *Enterprise* began in 2012. Huntington Ingalls has already received a \$67 million contract to prepare for this work. Currently, the aircraft carrier *U.S.S. Roosevelt* is undergoing a \$2.4 billion overhaul, which should be completed in 2013. When the *Roosevelt* leaves the Shipyard, the carrier *U.S.S. Abraham Lincoln* will arrive for its mid-life overhaul. The Shipyard has received an \$81 million contract for design work to prepare for that work.

Submarine repair work also provides employment for both production and white collar workers at the Shipyard. During the past two years, the Shipyard has received more than \$33 million in contracts for submarine repair work. Additionally, the Shipyard has received more than \$780 million in contracts for engineering; design and support work on Seawolf, Ohio, Los Angeles and Virginia class submarines. This includes a contract to develop current and future submarine platforms for the Navy.

#### *Muhlbauer Hi Tech International*

Besides the strength exhibited by Huntington Ingalls and the positive impacts of the economic development announcements made in 2008, the City has experienced other successes during the past several years. In 2009, Muhlbauer Hi Tech International opened a 30,000 square foot, \$5.5 million sales and service center for its smart card manufacturing machines. The facility also has back-up production capabilities and is primed for future expansion on a 5.89-acre site. The two-story, architecturally designed, metal and glass building won the Hampton Roads Association for Commercial Real Estate Excellence in Development Design Best Office Building and Juror's Awards for its environmentally sustainable, futuristic and highly functional design. Muhlbauer's move to Oakland Industrial Park located in northern Newport News, near Fort Eustis, will allow it to continue to expand as it serves its North and South American markets. Muhlbauer's investment follows the completion of new facilities at Oakland Industrial Park by the Breeger Communications Group (aka Coastal Forms and Products) and PenSoft, a developer of payroll management software, as well as an expansion by tool and die mold maker, Triton Industries.

#### *Atlantic 10 Conference*

In August 2009, the Atlantic 10 (A-10) Conference announced a relocation of its headquarters from Philadelphia to City Center at Oyster Point in Newport News. The A-10's relocation to Newport News gives the City new visibility in the sports world and is also a boon to the City's hospitality industry.

#### *Liebherr Mining Company*

In April 2010, Liebherr Mining Company announced a \$15 million expansion that will create 80 new manufacturing jobs by 2012. Liebherr, located in Copeland Industrial Park in the southern part of the City, manufactures very large trucks for transporting ore, each selling at a seven-figure price.

#### *Orion Air Group*

In May 2010, the Orion Air Group announced a relocation of its headquarters to Newport News' Air Commerce Park located at the Newport News/Williamsburg International Airport. Orion refurbishes and maintains aircraft for lease to the Department of Defense, as well as maintain aircraft for commercial leasing. Orion

has completed a 12,000-square-foot office corporate headquarters and adjacent 22,000-square-foot hangar facility, representing a minimum \$4 million capital investment, retention of 57 jobs, and creation of 51 new jobs.

#### *High Liner Foods, Inc./Icelandic USA*

In June 2010, Icelandic USA, located in Oakland Industrial Park, announced an \$8 million, 87,000 square foot expansion of its existing 151,000 square foot manufacturing facility. In conjunction with financing this expansion, Icelandic agreed to purchase the facility that it had been leasing from the IDA. In October 2010, Icelandic provided the IDA with funds to fully pay the note on this facility, removing a moral obligation by the City to support debt service on these bonds. The IDA discounted the land purchase price through a seven-year performance-based Expansion/Relocation Cost Reduction grant to facilitate Icelandic's exercise of its purchase option of the land and improvements. Icelandic's expansion was completed in May 2011.

High Liner Foods, Inc. purchased Icelandic USA in late 2011 and became the leading value-added seafood supplier in North America. Icelandic USA has a long history of providing high-quality seafood in popular forms, such as battered and breaded products as well as a full line of premium fillets. High Liner acquired several brands in connection with the acquisition. In addition, High Liner agreed to a seven-year royalty-free licensing agreement with Icelandic Group for the use of the Icelandic Seafood™ brand in the United States, Canada, and Mexico. High Liner also structured a long-term distribution agreement with Icelandic Group that will ensure that producers in Iceland will continue to have the same access to the U.S. market as they do today and that High Liner will continue to be able to supply its customers with high-quality fillets from Iceland under the Icelandic Seafood™ brand.

#### *Newport News/Williamsburg International Airport*

In May 2010, Frontier Airlines began non-stop service from the Newport News/Williamsburg International Airport to Denver International Airport. In June 2010, Frontier upgraded this flight to a 128-seat Airbus 318. This is the first entry of Frontier into the eastern Virginia market and the Denver flight is the farthest non-stop flight west available from the three eastern Virginia commercial airports—Richmond, Norfolk and Newport News. Passenger load revenue guarantees are being provided by the Regional Air Service Enhancement Fund during the establishment phase of the route's operation. Demand has been positive since the service began. The Transportation Services Agreement with Frontier has been amended and modified to extend the original two-year term, originally set to expire in April 2012, through May 2013. Importantly, this extension does not increase the original revenue guarantee established, yet it increases service provided by Frontier for the Denver route from 3 days per week to 7 days per week effective May 22, 2012. With the exception of several months of low demand in which service was temporarily discontinued as mutually agreed upon, the service has been popular and also provides a critical link to San Diego for military requirements and other West Coast destinations for business, military and leisure travel needs.

PeoplExpress announced plans in 2012 to initiate a new startup air service. An adjustment of the City's current Enterprise Zone boundary was made in order to help facilitate this project. PeoplExpress hopes to begin service late 2012, pending DOT approval, FAA approval, and raising the required capital funding. PeoplExpress will primarily serve the northeast corridor and has identified initial markets, including Newark, Pittsburgh, and Providence.

#### *Wal-Mart*

Also in May 2010, Wal-Mart announced that it would build a new, 150,000 square foot superstore at the intersection of Jefferson Avenue and Mercury Boulevard in Newport News. Strategically positioned between the James River Bridge and the Hampton city line, this store will bring new retail-based revenue to the City by drawing customers from populations to the west and east of Newport News, as well as retaining spending by Newport News residents that is now occurring in other jurisdictions. Wal-Mart anticipates opening late 2012 or early 2013.



### *Riverside Health System*

In December 2010, Riverside Health System announced \$107 million in new construction in Newport News, including a new operating theater at its Regional Medical Center. This new construction builds on an additional \$400 million in other recent investments. Though not taxable, this investment (which is part of a continuing strategy to invest in the modernization of Riverside's flagship medical facility) signals that a strong health care sector, led by Riverside, will continue in Newport News into the foreseeable future.

### *Revitalization of Areas Throughout the City*

The City and the EDA are also aware of the threats that face any urban community and are actively taking firm measures to revitalize older neighborhoods in the City. Two of the highest strategic priorities identified by the Newport News City Council were the revitalization of the City's Southeast Community and the Upper Warwick Boulevard commercial corridor in Denbigh. In both areas, the City has begun to back up its long-term commitment with action.

In the Southeast Community, substantial progress has been made toward achievement of the vision of a mixed-use, market-based development between Jefferson and Terminal Avenues that was announced in 2008 by the EDA and Aaron Brooks, a former University of Virginia and NFL quarterback. The EDA successfully completed the relocation of the Hornsby Tire Company to a new facility across Jefferson Avenue from the proposed development. As part of the relocation transaction, the EDA added 1.44 acres and 220 linear feet of Jefferson Avenue frontage to the 14-acre tract Southeast Commerce Center, site of the new development. In January 2011, Tidewater Properties Partnership Development, Brooks' company, brought additional development expertise to the project by signing a joint venture agreement with Armada Hoffer of Virginia Beach, developer of Virginia Beach Town Center, the Marriott Hotel and Conference Center at City Center at Oyster Point, and other successful projects. The EDA expects to sign a development agreement with this joint venture later in 2012.

Also in January 2011, the EDA acquired 4.41 acres adjacent to the Southeast Commerce Center, which will add to the redevelopment critical mass along the Lower Jefferson Avenue corridor. Meanwhile, the City continued to engage in design work for visual improvements along Jefferson Avenue, including the potential to underground existing overhead utilities. To help create a greater sense of place within the Southeast Community, and particularly within the Lower Jefferson Avenue corridor, the City has begun construction of the Dr. Martin Luther King Plaza and Memorial at the corner of Jefferson Avenue and 25th Street. At 31st Street in the Southeast Commerce Center, another plaza will feature a sculpture by renowned African-American Chicago artist, Richard Hunt.

In the Denbigh area of the City, new attention is being focused by the EDA and the City to revitalize what has been perceived as a declining commercial corridor. The Upper Warwick Boulevard commercial corridor, which extends from Oyster Point Road to Fort Eustis Boulevard, is responsible for about 10% of the City's retail sales and one out of eight meals tax dollars. The plan to revitalize the corridor is based on strategic public investments leveraging private improvements.

A major positive vector for the corridor is the relocation in 2011 of the U.S. Army's Training and Doctrine Command (TRADOC) to Joint Base Langley/Eustis (formerly Fort Eustis), at the northern end of the corridor. This will raise the status of the base from a one-star to a four-star command. Other commands to be headquartered at Fort Eustis include the Installation Management Command serving the Army's Northeast and Southeast regions, the Mission and Installation Contracting Command and the Network Enterprise Technology Command. These and the "Grow the Army" program are expected to produce net growth in military and civilian employment at Fort Eustis exceeding 1,700 during the coming years.

Already, the Defense Department has spent nearly \$200 million at Fort Eustis preparing for the TRADOC move and upgrading other facilities, with another \$300 million in construction underway. This investment includes a major training complex and the construction of 450 new homes and the renovation of about 425 existing homes at Fort Eustis under the Defense Department's military housing privatization initiative. A recently completed second entrance to Fort Eustis from Warwick Boulevard provides an opportunity for the

additional spending power that will be present at Fort Eustis to benefit the Upper Warwick Boulevard commercial corridor.

#### *City Center at Oyster Point and Retail Sales*

City Center at Oyster Point is the result of the City's active encouragement of high-density, next-level development in the previously undeveloped core of Oyster Point, resulting in a public/private partnership to undertake City Center's development. City Center at Oyster Point is an urban-scale, mixed use commercial development located around the high-image water feature — the Fountain Plaza — and infrastructure that the City put in place in 1995. City Center is being developed, in collaboration with the City and the EDA, by Newport News Town Center, LLC, formed by a group of local business people and developers. Other development partners include Kotarides Development, Armada Hoffer Development and Northwestern Mutual Life.

City Center is now into its third development phase. To date, nearly 600,000 square feet in five class-A office buildings and three combination retail-office buildings have been completed. Tenants include national and regional technology firms, such as The Boeing Group, Alion Science and Technology and C-squared Technologies, as well as the Federal Bureau of Investigation and major legal and accounting firms. Besides the Atlantic 10 Conference, corporate headquarters located at City Center include two regional credit unions, an accounting firm with offices throughout the state and Riverside Health System.

More than 160,000 square feet of fashion retail and restaurant space have been built at City Center. Tenants include Ann Taylor Loft, Banana Republic, Coldwater Creek, J Jill, Jos. A. Bank and Talbot's. In mid-2006, the 256-room Marriott Hotel and 70,000 square foot Conference Center opened overlooking City Center's spectacular five-acre Fountain Plaza. Both the hotel and the conference center have been successful. Regarding the residential component of City Center, 359 urban-scale, luxury apartments are now completed and leased. Construction is complete on The Pointe, a residential complex comprised of 54 condominium units priced from \$199,000 and upwards. 52 units have been sold and there is consumer interest in remaining units. All of this development is supported by three parking garages with almost 2,700 spaces, plus on-street parking.

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

A related development is underway on the former Bionetics property by Kotarides Developers, owners and developers of the Park Place Apartments at City Center. This 4.55 acre property is adjacent to Park Place at Lakefront Commons and Canon Boulevard. Kotarides will develop 234 luxury apartments in two buildings, the Belmont at City Center, investing an estimated \$30 million in the project. The property is within City Center's overlay zoning district and the added residential units will further City Center's development as a lively, mixed-use community. Leasing is underway, with completion of the first building slated for August 2012, and building two by year end.

City Center has achieved the intended goal that it serve as an anchor and a stimulus for the surrounding Oyster Point business park and create additional activity to reinforce Oyster Point's position as the Lower Peninsula's premier central business district for decades to come. The positive impact that City Center has had on Oyster Point can be seen in the fact that asking rents for older class A office buildings have kept up with the overall regional market. Class A office rents in Oyster Point are currently running 2% - 3% above the regional average (excluding Downtown Norfolk). Asking rents for the newest office space in City Center are 2% - 19% above the Downtown Norfolk average.

City Center's positive impact can also be seen in the steady increase in land value that has occurred in Oyster Point. Developed land in City Center is now assessed at \$1.1 million per acre. Land developed as class-A office, adjacent to City Center and within its zoning overlay district is assessed between \$300,000 and

\$350,000 per acre. Overall, the median assessment of land developed for office use on the perimeter of City Center has increased at an annual rate of 5.8% since City Center's inception (the average assessment has increased at a 7.4% annual rate). On average, the assessment of land located further from City Center in Oyster Point has increased at an annual rate of 5.6% for land developed for offices and 4.7% for land developed for other uses. Overall land assessments in Oyster Point, not including City Center, now average approximately \$150,000 per acre.

Just north of the Oyster Point business park and west of Canon Virginia is the Thomas Jefferson National Accelerator Facility, known as Jefferson Lab. Jefferson Lab, which first became operational in 1994, is designed to allow physicists to evaluate the properties of the smallest sub-atomic particles currently known to man. Jefferson Lab currently employs more than 1,000 people and is attracting more than 1,700 scientists annually from the world over. Jefferson Lab is in the midst of a project to double the power of its Continuous Electron Beam Accelerator. This \$310 million project will upgrade the electron beam to 24 gigaelectronvolts (GeV), and is scheduled for completion in 2015. An additional \$73 million was used to build a new experimental hall and refurbish one of the other three experimental halls. Beyond the short-term economic impacts generated from construction, the Jefferson Lab expansion will add 50 new employees and bring 200 to 400 additional visitors to the City on an annual basis.

Researchers at Jefferson Lab have developed the world's most powerful laser beam, the Free Electron Laser (FEL). The FEL is tunable in the infrared and ultraviolet ranges and is anticipated to have a variety of commercial uses. The FEL has produced the largest-best batch of nanotubes to date and research is continuing to improve the process. The FEL has applications in surface modification, medical imagery and x-ray lithography. Companies such as DuPont, IBM, 3M and Northrop Grumman have expressed interest in collaborating with Jefferson Lab to explore the uses of the FEL.

Because of the aggressive technology transfer efforts being made collaboratively by Jefferson Lab and the City, the City has become a magnet for high-tech industry and R&D laboratories. To facilitate the transfer of technology from Jefferson Lab to the private sector, the EDA built the Applied Research Center, a 122,000 square foot office and laboratory building providing a setting in which researchers from Jefferson Lab, area universities and the private sector can collaborate. The building is nearly 100% occupied. The Applied Research Center is home to Dilon Technologies, an innovative company that has developed and is producing a gamma-ray camera capable of detecting breast cancer tumors at very early stages of development. Another company that occupied space at the Applied Research Center is Soluble Systems, which developed and is marketing a revolutionary technology that regulates the moisture content of wound dressings. Soluble Systems has outgrown the space it was leasing at the Applied Research Center and has moved to other commercial office space in the City.

At the opposite end of the Jefferson Center for Research and Technology, the former Symantec Building was purchased by a local business interest and is now nearly fully occupied by technology-driven companies. Rebranded as Compass Pointe, this 100,000 square foot, class - A office building is home to SAIC, defense contractor Spectrum, Perfect Commerce/CorMine and Bosh Global Services, which one of the fastest growing companies in Virginia. Nearby, Rob Brown and Associates developed Interstate Professional Center, a 60,000 square foot condominium office project.

The Greater Oyster Point area, which includes Jefferson Lab, Jefferson Center for Research and Technology, Canon Virginia, Port Warwick and the area along the periphery of the business park, is second only to the Shipyard as a center of concentrated employment in Newport News and on the Lower Peninsula. Oyster Point is the center of business activity on the Lower Peninsula and has the submarket's largest concentration of law firms, accounting firms, banks and mortgage companies, engineering firms and temporary labor agencies. Oyster Point is also home to several high tech manufacturers and service providers including, in addition to those already mentioned at City Center: Advanced Technologies Inc., AH Environmental, Continental/VisiNet Broadband Nettelcos, Engineering Development Laboratory, Modern Machine and Triumph Aerospace Systems Newport News. Oyster Point also boasts the largest concentration of class-A office space on the Lower Peninsula. Altogether, Oyster Point now contains more than four million square feet of class-A office, single-story office, retail, flex-space and light industrial buildings. More than 20,000 people work in the Greater Oyster Point area in more than 900 businesses.

Substantial development has also occurred in the City's "Cultural Corridor," which extends from Oyster Point to Christopher Newport University. In addition to the more than \$300 million in expansion and

renovation to its hospital complex already completed by Riverside Health Systems, the Virginia Living Museum has doubled the size of its outdoor exhibit and expanded its building space by a factor of four with a \$21 million expansion. Christopher Newport University has completely transformed its campus and surrounding area with construction of multiple on and off-campus student housing, a new library, the Robert L. Freeman Sports and Convocation Center, structured parking and the \$51 million CNU Ferguson Center for the Arts designed by I.M. Pei. A new science building and an expansion of the Freeman Center are complete and there are plans for more additions to the campus, including, in the short-term, a new residence hall and a new academic building. CNU, a respected liberal arts institution, is attracting most of its student body from beyond the Hampton Roads region. The Ferguson Center for the Arts brings outstanding talent in the arts and popular entertainment to Lower Peninsula and Hampton Roads audiences, year-round.

Another major component of the Newport News economy has been Ferguson Enterprises, a division of Wolseley plc. Ferguson is the largest distributor of plumbing fixtures, supplies and piping in North America. Headquartered in Newport News, it has expanded twice within the past fifteen years by building new corporate office buildings. Ferguson also occupies two back office buildings along Warwick Boulevard in Denbigh, one of which it leases from the IDA. Further expansion connected with the location of Wolseley North America was announced in late 2005 but was placed on hold as the housing industry began to slump. This project is likely to be revived as the housing market recovers. Ferguson has recently resumed buying smaller companies to expand its supplier network. Although employment remains below its peak level in 2007, Ferguson remains the City's third largest private employer.

The increase in household income and white-collar employment that the City has experienced due to growth in companies and organizations such as Ferguson Enterprises, Jefferson Lab and Huntington Ingalls' white collar sector has had a positive effect on the City's retail base. North of Jefferson Lab, Patrick Henry Mall continues to attract more shoppers and to act as an anchor for what has become the retail downtown for the Lower Peninsula. In fact, the Patrick Henry Corridor is generally recognized as one of the best performing retail markets in Hampton Roads. Retail sales in Newport News have led those of other communities on the Lower Peninsula since 1992 and exceeded \$2 billion for the first time in 2006. Sales increased by 4.6% in 2007 but then began to decline as the recession dampened consumer spending, dropping to \$1.93 billion in 2009. Retail sales ended their year-to-year declines in the second quarter of 2010 and are expected to improve as the economy recovers.

The sustained growth in retail sales has been fueled, in part, by the concentration of "big box" and "category killer" stores in the Patrick Henry retail corridor. Besides mall anchors Dick's Sporting Goods, Dillard's, J.C. Penney and Macy's, these include: Barnes & Noble, Babies 'R Us, Bed Bath & Beyond, Best Buy, Costco, Haynes Furniture, Home Depot, Kohl's, Lowe's, Office Depot, Office Max, PetSmart, Pier One, Ross, Sam's Club, Target, TJ Maxx, Thomasville Furniture, Toys 'R Us and Wal-Mart. The corridor also hosts upscale groceries such as Trader Joe's and Fresh Market. Newport News is home to the only World Market and Ten Thousand Villages in the region. The Patrick Henry retail corridor has moved steadily northward along Jefferson Avenue, extending now almost to Denbigh Boulevard. The latest retail addition, Jefferson Market Place, is a mixed-use development on the corner of Jefferson Avenue and Bland Boulevard. Now complete, Jefferson Market Place contains 40,000 square feet of retail space and 250 luxury apartments.

Major future development in Newport News will include Huntington Point, which will be developed by McCale Development on land bordering York County between Denbigh Boulevard and Fort Eustis Boulevard in the northeast quadrant of the City. About 2,550 units are planned to be developed on 220 acres. Huntington Point will have a mix of single-family homes, townhouses, condominiums and apartments, plus some commercial development. The new urbanist development will have homes priced in the mid- to upper range of the market. As part of the development, McCale will build a four-lane connector road between Denbigh and Fort Eustis Boulevards, a transportation project that the City has wanted for decades. The developer is seeking to use a CDA as a mechanism to finance this road and stormwater improvement that will also serve areas adjacent to the project.

#### *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. Much interest has been shown in the programs, and two projects have been approved to date. Under the local program, the owners' of Second Street Bistro plan to make a capital investment of \$1,000,000 and hire at least 20 employees. Under a combination of the local program and the Commonwealth's program, the developers of City Center plan to make a capital investment of \$22,000,000 and hire over 525 employees associated with an entertainment district which will include two new destination restaurants, a restaurant / entertainment venue, and a theater/restaurant entertainment venue.

## **Employment**

As of May 2012, the Virginia Employment Commission has reported unemployment rates of 5.5% for Virginia, 6.3% for Hampton Roads, and 6.9% for Newport News. All continue to outperform the nation, which had a jobless rate of 7.9% as of May 2012. As described in the Local Economy section above, a diverse cross-section of industry has positioned Newport News to withstand employment downturns in any one area. Within the last year, the City has seen major expansion in healthcare, higher education, manufacturing, shipbuilding, military and other areas.

## **Housing and Commercial Activity**

The following table presents housing and commercial activity in the City for the last ten calendar years.

**Construction Permits Issued by Type of Structure**

<u>Calendar Year</u>	<u>Single-Family</u>	<u>Multi-Family/ Dwelling Units</u>	<u>Commercial and Industrial</u>
2003	254	16/227	40
2004	204	15/442	53
2005	172	23/438	57
2006	262	14/276	24
2007	124	28/427	52
2008	94	10/236	39
2009	60	17/288	17
2010	108	36/76	29
2011	149	53/718	40
2012*	95	15/323	49

Source: Department of Codes Compliance.

\* January through July only.

**Value of Construction Permits  
(000's) omitted**

<b><u>Calendar Year</u></b>	<b><u>Single-Family</u></b>	<b><u>Multi-Family Dwelling Units</u></b>	<b><u>Commercial and Industrial</u></b>	<b><u>Total</u></b>
2003	\$24,625	\$10,640	\$24,065	\$ 59,330
2004	33,351	23,072	44,116	100,539
2005	21,881	23,199	91,611	136,691
2006	33,945	36,081	47,043	117,069
2007	13,181	21,103	73,540	107,824
2008	20,579	10,114	86,681	117,374
2009	6,818	9,093	24,886	40,797
2010	7,443	1,793	27,471	36,707
2011	10,515	30,073	12,035	52,623
2012*	17,172	12,067	17,227	46,466

Source: Department of Codes Compliance.

\* January through July only.

**Retail Sales**

The following table presents data for taxable retail sales in the City:

<b>Taxable Retail Sales</b>		
<b><u>Calendar Year</u></b>	<b><u>Retail Sales</u></b>	<b><u>Change</u></b>
2002	\$1,850,658,400	
2003	1,945,674,000	5.1%
2004	2,045,453,400	5.1
2005	2,134,787,000	4.4
2006	2,279,077,200	6.8
2007	2,122,454,446	-6.9
2008	2,224,601,474	4.8
2009	2,118,170,503	-4.8
2010	2,088,361,972	-1.4
2011	2,122,220,230	1.6
2012*	1,086,610,149	N/A

Source: Department of Budget and Evaluation.

\* January through June only.

## TAX BASE DATA

### Assessed Valuation of Taxable Property

Local tax revenues are derived primarily from real and personal properties located within the City. Both real and personal property were assessed at 100% of estimated fair market value for the years shown. The following table is presented to illustrate the trends in these values. The numbers include public utility real and personal property.

### ASSESSED VALUE OF TAXABLE PROPERTY (000's Omitted)

<u>Fiscal Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Total</u>
2002.....	\$ 7,631,228	\$1,418,558	\$ 9,049,786
2003.....	8,028,146	1,446,703	9,474,849
2004.....	8,510,394	1,457,393	9,967,787
2005.....	9,247,182	1,509,568	10,756,750
2006.....	10,591,097	1,561,166	12,152,263
2007.....	12,420,991	1,606,379	14,027,370
2008.....	14,444,944	1,733,289	16,178,233
2009.....	15,732,129	1,756,584	17,488,713
2010.....	16,302,536	1,745,997	18,048,533
2011.....	15,312,682	1,777,349	17,090,031

Source: FY 2011 Comprehensive Annual Financial Report (S-6).

### PROPERTY TAX RATES (Per \$100 Assessed Value)

	<u>Fiscal Year Ending June 30</u>				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Real Property .....	\$1.10	\$1.10	\$1.10	\$1.10	\$1.10
Personal Property					
Mobile Homes .....	1.10	1.10	1.10	1.10	1.10
Boats .....	1.00	1.00	1.00	1.00	1.00
Machinery & Tools.....	3.75	3.75	3.75	3.75	3.75
Motor Vehicles .....	4.25	4.25	4.25	4.25	4.25
Public Service Corporations					
Personal Property.....	4.25	4.25	4.25	4.25	4.25
Machinery & Tools.....	1.10	1.10	1.10	1.10	1.10

Source: Department of Budget and Evaluation.

## **Largest Owners of Real Property**

The following table provides a listing of the twenty largest real property taxpayers in the City as of July 1, 2011.

### **TOP TWENTY REAL ESTATE TAXPAYERS**

**July 1, 2011**

<b><u>Name</u></b>	<b><u>Assessment</u></b>	<b><u>Taxes</u></b>
Newport News Shipbuilding & Dry Dock	\$691,585,369	\$7,607,439.06
Riverside Regional Medical Center	145,408,636	1,599,495.00
PR Patrick Henry LLC	136,807,500	1,504,882.50
Dominion Virginia Power	124,134,500	1,365,479.50
Canon USA Inc.	114,477,200	1,259,249.20
Verizon VA	94,760,881	1,042,369.69
Inland Western Newport News	65,813,700	723,950.70
Virginia Natural Gas	46,150,408	507,654.49
Patrick Henry Hospital (Warwick Forest)	45,050,800	495,558.80
DCO Realty Inc.	41,765,000	459,415.00
Oyster Point Residential LLC	40,732,000	448,052.00
Dominion Terminal Associates	38,047,500	418,522.50
Kinder Morgan Operation LP "C"	35,353,700	388,890.70
Meridian Parkside Apartments LLC	34,478,500	379,263.50
CSX Transportation, Inc.	32,132,478	353,457.26
FCPK Harbours LLC	30,376,000	334,136.00
BR Springhouse LLC	28,983,000	318,813.00
CNU Village Land LLC	28,315,900	311,474.90
Inland Southeast Denbigh Village	27,902,200	306,924.20
Jones Run LLC	24,986,000	274,846.00
<b>TOTAL</b>	<b>\$1,827,261,272</b>	<b>\$20,099,874.00</b>

Assessed value of twenty largest owners of real property (\$1,827,261,272) as a percentage of the total assessed value of real property in the City subject to taxation as of July 1, 2011 (\$14,727,321,869) is 12.4%.

Source: Office of the Real Estate Assessor, City of Newport News.



## Property Tax Levies and Collections

The following table represents a summary of property tax levies and collections for the last ten fiscal years.

### PROPERTY TAX LEVIES AND COLLECTIONS (000's Omitted)

Fiscal Year	Tax Levy	Current Year		Prior Year Amount	Collection in Subsequent Years	Total Collections for	
		Amount	% of Levy			Amount	% of Levy
2002	\$146,232	\$137,707	94.2%	\$7,017	-	\$144,724	99.0%
2003	154,654	145,541	94.1	7,729	-	153,270	99.1
2004	160,747	152,197	94.7	7,463	-	159,660	99.3
2005	171,852	162,199	94.4	7,497	-	169,696	98.7
2006	188,870	180,295	95.5	-	\$6,355	186,650	98.8
2007	207,427	200,041	96.4	-	7,236	207,277	99.9
2008	218,395	210,243	96.3	-	7,831	218,074	99.9
2009	232,507	224,199	96.4	-	7,592	231,791	99.7
2010	235,225	227,030	96.5	-	6,476	233,506	99.3
2011	233,380	222,804	95.5	-	Not Available	222,804	95.5

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

Source: FY 2011 Comprehensive Annual Financial Report (S-9).

## DEBT ADMINISTRATION

Pursuant to the Constitution of Virginia and the Public Finance Act of 1991, a city in Virginia is authorized to issue general obligation bonds secured by a pledge of its full faith and credit. For the payment of such bonds the governing body of the City is required to levy, if necessary, an *ad valorem* tax on all property in the City subject to local taxation. The issuance by cities in Virginia of bonds or other interest-bearing obligations is subject to a limitation of ten percent of the assessed value of real property in the City subject to taxation as shown by the last preceding assessment for taxes. In determining the limitation, certain classes of indebtedness may be excluded, including revenue anticipation notes maturing in one year or less, referendum-approved general obligation bonds payable from a specific revenue producing undertaking and revenue bonds.

The City had outstanding tax-supported general obligation indebtedness as of June 30, 2012 as shown below. These amounts exclude general obligation water bonds backed by the full faith and credit of the City.

General Improvement Bonds.....	\$322,830,000
Economic/Industrial Development Authority Bonds Secured by Payment Agreements with the City .....	74,786,000
Virginia Resources Authority .....	29,583,329
Literary Fund Loans .....	6,297,663
Virginia Public School Authority .....	4,382,117
Airport Bonds .....	4,180,000
Virginia Municipal Pool Loans .....	2,300,000
Qualified Zone Academy Bonds .....	<u>916,475</u>
Total .....	<u>\$445,275,584</u>

At June 30, 2012, the NNEDA and the NNIDA (collectively, the “E/IDA”) had outstanding bonds totaling \$119,113,169 to finance economic development located within the City. Of this total, the City Council has outstanding payment agreements in the form of general obligations for NNEDA bonds totaling \$74,786,000 and provides additional security for outstanding bonds totaling \$6,754,259 in the form of its contingent moral obligation. The City’s requirement to make payments, if necessary, under these moral obligation commitments is subject to appropriation by City Council each year. To date, none of the obligations of the E/IDA have required the City to make payments under its moral obligation commitments. The City Council has adopted policies concerning the use of the City’s use of its contingent moral obligation which have the effect of limiting the use of this technique. On February 23, 2012 City Council approved an additional moral obligation agreement for the benefit of the NNEDA as support of an Advance Shipbuilding Training Facility and adjacent related, high qualify mixed-use development (see also “Shipyard Apprentice School”).

On December 7, 2004 the NNEDA issued \$31,495,000 of its Economic Development Revenue Bonds, Series 2004A and Series 2004B (Taxable) (collectively referred to as the “Series 2004 Bonds”), to finance a parking garage in City Center at Oyster Point and other infrastructure in the area surrounding the City’s Operation Center and to pay a portion of the cost of a privately-owned full service hotel adjacent to an NNEDA-owned conference center in City Center at Oyster Point. In connection with the issuance of the Series 2004 Bonds, the City executed and delivered to the NNEDA a Payment Agreement under which the City has agreed to pay to the NNEDA (i) as a general obligation of the City, secured by the City’s full faith and credit, amounts sufficient to pay the debt service on the Series 2004 Bonds and (ii) subject to the appropriation of moneys for such purpose by the City Council, amounts sufficient to pay certain administrative expenses relating to the Series 2004 Bonds, including fees and expenses of the bond trustee. The NNEDA has assigned its rights under the Payment Agreement to the bond trustee as security for the payment of the Series 2004 Bonds.

On December 29, 2005, the NNEDA issued \$33,000,000 of its Economic Development Revenue Bonds, Series 2005A and Series 2005B (Taxable) (collectively referred to as the “Series 2005 Bonds”), to finance a parking garage and related infrastructure on the corner of Mariner’s Row and Canon Boulevard in the City and an office tower known as the Rouse Tower on Jefferson Avenue in the City. In connection with the issuance of the Series 2005 Bonds, the City executed and delivered to the NNEDA a Payment Agreement under which the City has agreed to pay to the NNEDA (i) as a general obligation of the City, secured by the City’s full faith and credit, amounts sufficient to pay the debt service on the Series 2005 Bonds and (ii) subject to the appropriation of moneys for such purpose by the City Council, amounts sufficient to pay certain administrative expenses relating to the Series 2005 Bonds, including fees and expenses of the bond trustee. The NNEDA has assigned its rights under the Payment Agreement to the bond trustee as security for the payment of the Series 2005 Bonds.

On June 29, 2006, the NNEDA issued \$18,900,000 of its Economic Development Revenue Bonds, Series 2006 (Taxable) (the “Series 2006 Bonds”), to finance the acquisition of a conference center located in the City Center at Oyster Point in the City. In connection with the issuance of the Series 2006 Bonds, the City executed and delivered to the NNEDA a Payment Agreement under which the City has agreed to pay to the NNEDA (i) as a general obligation of the City, secured by the City’s full faith and credit, amounts sufficient to pay the debt service on the Series 2006 Bonds and (ii) subject to the appropriation of moneys for such purpose by the City Council, amounts sufficient to pay certain administrative expenses relating to the Series 2006 Bonds, including fees and expenses of the bond trustee. The NNEDA has assigned its rights under the Payment Agreement to the bond trustee as security for the payment of the Series 2006 Bonds.

On December 21, 2010, the NNEDA issued \$8,940,000 of Economic Development Revenue Bonds, Series 2010 (Tax-exempt) (the “Series 2010 Bonds”) to refinance the Series 2001 variable rate Bonds issued to finance the acquisition, construction and equipping of the Merchants Walk Parking Garage. In connection with the issuance of the Series 2010 Bonds, the City executed and delivered to the NNEDA a Payment Agreement under which the City has agreed to pay to the NNEDA (i) as a general obligation of the City, secured by the City’s full faith and credit, amounts sufficient to pay the debt service on the Series 2010 Bonds and (ii) subject to the appropriation of moneys for such purpose by the City Council, amounts sufficient to pay certain administrative expenses relating to the Series 2010 Bonds, including fees and expenses of the bond trustee. The NNEDA has assigned its rights under the Payment Agreement to the bond trustee as security for the payment of the Series 2010 Bonds.

**COMPUTATION OF LEGAL DEBT MARGIN**  
**June 30, 2012\***

Assessed Value of Real Property .....	\$15,067,111,653
Total Debt Limit (10% of Total Assessed Value) .....	\$ 1,506,711,165
Bonds Issued and Other Indebtedness Outstanding:	
General Improvement Bonds .....	\$ 322,830,000
Economic/Industrial Development Authority Bonds Secured by Payment Agreements with the City .....	74,786,000
Virginia Resources Authority .....	29,583,329
Literary Fund Loans .....	6,297,663
Virginia Public School Authority .....	4,382,117
Airport Bonds .....	4,180,000
Virginia Municipal Pool Loans .....	2,300,000
Qualified Zone Academy Bonds .....	916,475
Capital Leases .....	<u>1,624,866</u>
Total Bonds and Other Indebtedness .....	\$ 446,900,450
Legal Debt Margin .....	\$1,059,810,715

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\* Article VII, Section 10 of the Constitution of Virginia, 1971, provides that Waterworks' Bonds, authorized by referendum, shall not be considered, as long as the Waterworks is self-supporting.

**RATIO OF ANNUAL DEBT SERVICE FOR GENERAL BONDED DEBT  
TO GENERAL GOVERNMENTAL EXPENDITURES  
(000's Omitted)**

<b><u>Fiscal Year</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total Debt Service</u></b>	<b><u>General Governmental Expenditures</u></b>	<b><u>Debt Service as a % of General Governmental Expenditures</u></b>
2002	\$22,084	\$19,014	\$41,098	\$393,553	10.4%
2003	24,422	18,313	42,735	412,440	10.4
2004	26,536	19,371	45,907	426,798	10.8
2005	38,750	20,625	59,375	451,327	13.2
2006	31,156	17,281	48,437	492,689	9.8
2007	31,333	21,861	53,194	501,977	10.6
2008	35,742	24,792	60,534	522,651	11.6
2009	34,422	26,054	60,476	511,811	11.8
2010	33,444	24,356	57,800	513,942	11.2
2011	33,675	28,100	61,775	526,671	11.7

Source: FY 2011 Comprehensive Annual Financial Report (S-4).

**RATIO OF OUTSTANDING DEBT TO ASSESSED VALUE  
AND OUTSTANDING DEBT PER CAPITA  
(000's Omitted)**

<b><u>Fiscal Year</u></b>	<b><u>Population</u></b>	<b><u>Assessed Value of Taxable Property</u></b>	<b><u>Outstanding Debt</u></b>	<b><u>Less: Debt Service Fund</u></b>	<b><u>Less: Public Utility Bonds</u></b>	<b><u>Net Outstanding Debt*</u></b>	<b><u>Net Outstanding Debt as % of Assessed Value</u></b>	<b><u>Net Outstanding Debt Per Capita</u></b>
2002	\$180,305	\$ 9,049,786	\$592,652	\$1,790	\$178,215	\$412,647	4.6%	\$2,289
2003	181,640	9,474,849	597,622	2,501	189,110	406,011	4.3	2,235
2004	185,200	9,967,787	588,107	2,524	178,025	407,558	4.1	2,201
2005	185,240	10,756,750	569,430	1,137	165,220	403,073	3.7	2,176
2006	186,000	12,152,263	562,609	319	166,475	395,815	3.3	2,128
2007	186,000	14,027,370	709,633	1,307	195,155	513,171	3.7	2,759
2008	187,200	16,178,233	718,779	2,139	208,855	507,785	3.1	2,713
2009	193,212	17,488,713	725,485	1,258	217,720	506,507	2.9	2,628
2010	193,172	18,048,533	659,885	6,511	186,330	467,044	2.6	2,411
2011	180,719	17,090,031	616,391	4,371	172,695	439,325	2.6	2,431

\* 2011 Net Outstanding Debt includes all tax-supported general obligation indebtedness (\$443,696) less amount available in Debt Service Fund (\$4,371).

## Bond Amortization Requirements

Principal and interest payments on the tax-supported general obligation bonded indebtedness of the City (which excludes general obligation bonds payable from the City's water system) are set forth in the table, entitled "City of Newport News, Virginia, General Obligation Bonded Indebtedness" below. This general obligation outstanding indebtedness includes principal and interest payments on Literary Fund Loans, Virginia Municipal Loan Pool borrowings, Virginia Public School Authority borrowings, Virginia Water Facilities Revolving Fund borrowings, Peninsula Airport Commission (Newport News/Williamsburg International Airport) borrowings, Qualified Zone Academy Bond borrowings, and Economic/Industrial Development Authority Bonds secured by City payment agreements.

### City of Newport News, Virginia, General Obligation Bonded Indebtedness

Fiscal Year	Outstanding Prior to Current Issue			Current Issue			Grand Total
	Principal	Interest	Total	Principal	Interest	Total	
2013	\$ 39,662,508	\$ 18,057,495	\$ 57,720,002	\$ -	\$ -	\$ -	\$
2014	40,413,378	16,765,542	57,178,920				
2015	40,298,132	15,054,331	55,352,464				
2016	37,900,796	13,444,149	51,344,945				
2017	36,959,679	11,915,701	48,875,380				
2018	30,644,157	10,480,696	41,124,853				
2019	26,567,078	9,270,753	35,837,831				
2020	25,556,352	8,229,250	33,785,601				
2021	24,009,423	7,156,555	31,165,978				
2022	22,598,093	6,160,080	28,758,173				
2023	20,813,584	5,177,826	25,991,410				
2024	19,409,047	4,282,534	23,691,582				
2025	17,981,958	3,428,577	21,410,535				
2026	14,276,738	2,645,561	16,922,299				
2027	13,162,386	1,998,778	15,161,164				
2028	10,023,097	1,449,445	11,472,542				
2029	7,736,456	1,008,598	8,745,054				
2030	7,592,336	664,123	8,256,459				
2031	5,800,383	358,188	6,158,572				
2032	<u>3,870,000</u>	<u>90,803</u>	<u>3,960,953</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total	<u>\$445,275,581</u>	<u>\$137,639,136</u>	<u>\$582,914,717</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

In 1995 the City entered into financing agreements with the Virginia Municipal Pool Loan Program pursuant to which the City borrowed \$11.5 million for various equipment purchases and economic development activities. \$9.0 million of the \$11.5 million has been retired. The City repays its outstanding \$2.5 million borrowing from the Pool Loan Program over a 20-year amortization period with interest calculated weekly based on a tax-exempt variable rate. Under the Pool Loan Program local government entities in Virginia may borrow for capital purposes. The Pool Loan Program was created in January 1995, by the issuance of \$100 million bonds by the Industrial Development Authority of Louisa County, Virginia.

Principal and interest payments on general obligation water bonds and water revenue bonds of the City, which are payable from and secured by the revenues of the City's water system, for the fiscal years 2012 through 2037, are set forth in the table, entitled "City of Newport News, Virginia, Water Bonds", below.

**City of Newport News, Virginia,  
Water Bonds**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	12,160,000	6,397,909	18,557,909
2014	12,705,000	6,010,879	18,715,879
2015	13,480,000	5,487,163	18,967,163
2016	13,575,000	4,976,255	18,551,255
2017	13,980,000	4,525,573	18,505,573
2018	11,460,000	4,077,777	15,537,777
2019	11,930,000	3,636,020	15,566,020
2020	10,275,000	3,165,629	13,440,629
2021	7,900,000	2,784,614	10,684,614
2022	8,315,000	2,396,658	10,711,658
2023	5,955,000	2,055,520	8,010,520
2024	4,645,000	1,823,683	6,468,683
2025	4,130,000	1,623,553	5,753,553
2026	4,325,000	1,428,553	5,753,553
2027	3,375,000	1,223,763	4,598,763
2028	3,535,000	1,058,913	4,593,913
2029	1,710,000	886,238	2,596,238
2030	1,790,000	805,013	2,595,013
2031	1,875,000	719,988	2,594,988
2032	1,965,000	630,925	2,595,925
2033	2,055,000	542,500	2,597,500
2034	2,145,000	450,025	2,595,025
2035	2,245,000	353,500	2,598,500
2036	2,355,000	241,250	2,596,250
2037	<u>2,470,000</u>	<u>123,500</u>	<u>2,593,500</u>
<u>Total</u>	<u>\$160,355,000</u>	<u>\$57,425,396</u>	<u>\$217,780,396</u>

**CAPITAL IMPROVEMENT PROGRAM**

The City Code requires the City Manager to submit to City Council, no later than November 1 of each year, a multi-year Capital Improvement Plan (CIP). On January 10, 2012, the City Council approved a CIP for Fiscal Year 2013 to Fiscal Year 2017.

On January 23, 2007, the City Council approved a resolution establishing policies to guide the City government in its capital financing and debt management activities. The City is in compliance with each of these policies, which are as follows:

1. The City's intent is to maintain its debt burden, which is defined as the ratio of its outstanding general obligation debt and capital lease obligations divided by the value of the total taxable real and personal property in any given year, to no more than three percent (3%). In acknowledging that as of FY 2007, the City had a debt burden of 3.88%, the goal of City Council was to reduce this ratio to 3.0% or less by the end of its five-year capital improvement plan timeframe or by FY 2012. This goal was reached in FY 2009.

2. It is the goal of City Council to finance fifteen percent (15%) of its Capital Improvements Plan spending with cash capital in FY 2008, and that this proportion be increased to no less than twenty percent (20%) by FY 2012. This policy will be satisfied in FY 2013, as reflected in the adopted FY 2013 – FY 2017 Capital Improvements Plan.

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

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

5. The City Manager shall provide 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. Said impact analysis shall be provided to City Council for review and consideration prior to making a commitment to projects for which the City is guaranteeing debt payments.

6. Recognizing that moral obligation debt entered into by the City has become a factor in the evaluation of the City's debt capacity, the City Council is establishing a moratorium on the issuance of additional moral obligation debt until such time that the City's debt burden is at or below three percent (3%). It is further the intent of City Council that outstanding moral obligation debt shall not be more than one-half of one percent (0.5%) of the value of taxable property in Newport News. The FY 2012 ratio projected for outstanding moral obligation debt is 0.05%.

Shown below are the estimated sources of funding and a summary of proposed expenditures for the City's FY 2013 - FY 2017 Capital Improvements Plan.

### PROJECTED SOURCES OF FUNDING

Fiscal Year Ending June 30

(000's omitted)

<u>Funding Source</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
<b>General Obligation Bonds:</b>						
General Improvement	\$30,545	\$30,650	\$29,955	\$30,355	\$29,960	\$151,465
Water	8,840	3,000	3,100	1,000	17,200	\$33,140
Water Revenue Bonds	7,000	7,000	0	0	0	\$14,000
Stormwater Drainage Fees	6,200	5,200	4,700	4,200	3,200	\$23,500
Sewer Rehabilitation Fees	8,210	9,700	8,700	8,700	8,700	\$44,010
Solid Waste Fees	300	550	400	150	150	\$1,550
<b>Cash Capital - Operating Budget:</b>						
General Fund	8,990	8,700	8,665	9,695	9,830	\$45,880
Waterworks	6,828	7,906	5,582	9,103	5,904	\$35,323
Grant/Other	<u>10,247</u>	<u>2,010</u>	<u>1,450</u>	<u>19,200</u>	<u>43,200</u>	<u>\$76,107</u>
Total	\$87,160	\$74,716	\$62,552	\$82,403	\$118,144	\$424,975

### SUMMARY OF PROPOSED EXPENDITURES

Fiscal Year Ending June 30

(000's omitted)

<u>Category</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Community Development	\$4,790	\$6,025	\$8,610	\$9,220	\$8,480	\$37,125
Environmental	550	2,025	250	825	500	\$4,150
Community Facilities	1,105	1,130	630	455	0	\$3,320
Transit	712	320	0	9,000	9,000	\$19,032
Equipment	7,700	3,250	2,550	1,820	1,900	\$17,220
Parks and Recreation	5,660	3,990	2,655	2,050	2,660	\$17,015
Public Buildings	5,055	8,180	2,725	5,400	4,900	\$26,260
Schools	9,200	10,100	10,200	11,100	12,000	\$52,600
Sanitary Sewer Extensions	0	0	500	0	1,000	\$1,500
Streets and Bridges	15,010	6,340	11,950	19,380	42,550	\$95,230
Waterworks	22,668	17,906	8,682	10,103	23,104	\$82,463
Sanitary Sewer Rehabilitations	8,210	9,700	8,700	8,700	8,700	\$44,010
Solid Waste	300	550	400	150	150	\$1,550
Stormwater Drainage	<u>6,200</u>	<u>5,200</u>	<u>4,700</u>	<u>4,200</u>	<u>3,200</u>	<u>\$23,500</u>
Total	\$87,160	\$74,716	\$62,552	\$82,403	\$118,144	\$424,975



## NEWPORT NEWS EMPLOYEES' RETIREMENT FUND (NNERF)

### Pension

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

NNERF is a separate pension trust fund and is considered part of the City's financial reporting entity. All full-time regular employees hired before July 1, 2009 for the NNSS and before March 1, 2010 are members of this fund. For the year ended June 30, 2011, the total payroll of the City was approximately \$342.9 million, with approximately \$261.8 million covered by NNERF. At June 30, 2011, NNERF membership consisted of:

June 30, 2011					
	<u>Retirees and Beneficiaries</u>	<u>Vested Terminated Employees</u>	<u>Active Employees Vested</u>	<u>Active Employees Non-Vested</u>	<u>Total</u>
City general	997	624	1,084	341	3,046
City police and fire	695	235	657	305	1,892
Public utilities	206	116	239	48	609
School VRS	2,124	1,064	2,340	557	6,085
School Non-VRS	<u>696</u>	<u>219</u>	<u>683</u>	<u>184</u>	<u>1,782</u>
Total	4,718	2,258	5,003	1,435	13,414

### Benefits and Services Provided

NNERF provides retirement benefits as well as disability benefits. All benefits vest after five years of credited service. Employees who retire at or after age 60 (50 for police officers, firefighters and deputy sheriffs) with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.0% of their average final compensation for each year of credited service worked through February 29, 2010, and 1.85% of their average final compensation for each year of credited service after March 1, 2010. Average final compensation is defined as the average annual compensation paid during the member's 36 highest paid consecutive months of credited service. Employees with 30 years (25 for police officers, firefighters and deputy sheriffs) credited service may retire at any age with full benefits. Employees (other than police officers, firefighters and deputy sheriffs) with 25 years of service may retire prior to age 60 and receive a reduced benefit. Covered employees do not contribute to NNERF. The plan provides for annual cost of living adjustment (COLA), based on the full first 1% increase in the urban CPI and half of any increase in the CPI beyond 1%, to a maximum adjustment of 3.5%. For July 1, 2012, retirees received a 2.1% COLA adjustment.

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.

### Funding Status

The City has committed to an eight-year funding plan to reach 100% of the Annual Required Contribution (ARC) for the Retirement Fund. This commitment, along with closing the fund to new and rehired employees and decreasing the multiplier from 2.0% to 1.85% in March of 2010, will help the overall funding status for the fund. In Fiscal Year 2012, the third year of the funding plan, the City committed to contributing 54% of the ARC. Contributions of \$32.70 million were made by the City during the fiscal year ended June 30, 2012 (\$27.4 million for the fiscal year ended June 30, 2011).

**Schedule of Fund Progress**

**Year ended June 30, 2011**

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

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (underfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2011	\$ 641	\$ 1,145	\$ (504)	56%	\$ 262	-192.4%
June 30, 2010	638	1,110	(472)	57%	283	-166.8%
June 30, 2009	711	1,115	(404)	64%	314	-128.7%
June 30, 2008	772	1,030	(258)	75%	314	-82.2%
June 30, 2007	746	954	(208)	78%	305	-68.2%
June 30, 2006	682	894	(212)	76%	298	-71.1%
June 30, 2005	625	834	(209)	75%	285	-73.3%
June 30, 2004	586	726	(140)	81%	282	-49.6%
June 30, 2003	586	677	(91)	87%	262	-34.7%
June 30, 2002	621	601	20	103%	249	8.0%

At June 30, 2011, the Unfunded Pension Benefit Obligation (UPBO) was \$258 million. The UPBO is a measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee services to date. The measure is intended to help interested parties assess plan funding status on an ongoing-concern basis and to assess progress made in accumulating sufficient assets to pay benefits. An assumed net investment return of 7.75%, 3.5% annual salary increase and 1.9% cost of living adjustment were incorporated into the calculation of the actuarial present value of accumulated plan benefits.

*(In millions)*

Retirees and beneficiaries currently receiving payments	\$ 636
Former Vested Members	70
Active (vested and non-vested)	<u>284</u>
Total Pension Benefit Obligation	\$ 990

Net assets available for plan benefits <i>(at market)</i>	<u>\$ 732</u>
Unfunded Pension Benefit Obligation	<u>\$ 258</u>

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.

### **Investments**

The Board of Trustees has adopted a written Investment Policy that includes the guidelines and objectives for the Investments. The Trustees are empowered to invest NNERF assets utilizing the “prudent person” standard and to take appropriate action regarding the investment, management, and custodianship of the assets. The investment responsibilities include establishing reasonable investment objectives, developing investment policy guidelines, selecting investment managers and evaluating performance results to assure adherence to the guidelines and the achievement of objectives. Each investment manager must adhere to the guidelines established by the Trustees to ensure asset quality, diversification, liquidity and risk. Both annual and long term goals are established

for each manager and attainment of the goals weighs heavily in terms of whether or not a manager's contract is renewed. Typically, managers who fall below the Board's minimum objectives over the long term are replaced.

The Board of Trustees has carefully exercised areas of responsibility by diversifying the assets. The Trustees recognize that the objective of a sound and prudent policy is to produce investment results which will preserve the NNERF assets and to maximize the earnings consistent to the projected needs. The Trustees have established long-term goals for the overall investment portfolio consistent with the liabilities of the fund. At a minimum, the fund in aggregate needs to earn a compound rate of return over a long period of 7.75%.

An independent investment consultant firm evaluates the performances of investment managers based on three factors: comparison with an assigned benchmark that matches the manager's style; a ranking against a universe of similar managers; and adherence to the Fund's policy and guidelines. The managers represent a mix of asset classes that the Trustees believe will earn the actuarial assumption with as little risk as possible. Both portfolio performance and manager performance are evaluated over a time period of at least one market cycle, usually assumed to be five years, or longer. The investment consultant reports his findings to the Committee on Investment on a monthly basis. In addition, the Fund's staff produces a monthly financial report for the Trustees which contains information on monthly and cumulative investment returns.

### **Professional Services**

Professional consultants are appointed by the Trustees to perform services that are essential to the effective and efficient operational/investment activities of the NNERF. An independent auditor, actuary and investment consultant are hired to provide service to the fund.

### **Administration**

The nine voting members of the Board of Trustees govern the operation of the pension fund. Four members appointed by City Council and five members elected by the employees make up the voting members. One employee representative each is elected from general employees, waterworks, fire and police, public works and school employees, all serving five year staggered terms. The appointed members serve two year terms and are eligible to be appointed to serve four consecutive two year terms. The Director of Finance is the ex-officio secretary of the board and the administrative head of the fund. The City Treasurer is the ex-officio treasurer of the fund. A retiree member advisor appointed by City Council, City Attorney and City Internal Auditor serve as advisors to the board.

The seven members of the Investment Committee make recommendations to the board for the investment of the reserve or the sale of the securities of the fund. The committee consists of the City Manager/designee and six members nominated by the Board and appointed by City Council. Two of the six are members of the Board and the remaining four members need not necessarily be board members. The City Manager/designee and two committee members from the Board are appointed annually; the remaining four serve two years.

### **OTHER POST EMPLOYMENT BENEFITS (OPEB)**

The OPEB Trust Fund is a single employer plan administered by the City to provide health, dental and life insurance benefits for City retirees. The Fund was originally established to provide benefits for City and School retirees. Effective July 1, 2009, Newport News School System (NNSS) separated from the City's OPEB Fund. Effective July 1, 2009 and March 1, 2010, the OPEB Trust Fund was closed to new hires and rehires of NNSS and City, respectively.

As of June 30, 2012, the fund was valued at \$16.8 million. Benefits and contribution provisions are established by City Ordinance and may be amended only by the City Council. An actuarial service is employed to advise the City Council and the Retirement Board of the contributions necessary to fund the benefits.

The City currently does not have a formal funding plan in place for the OPEB fund. The fund is currently operating on a pay-as-you-go basis. The City ensures that contributions cover expenditures for the fiscal year. A cap has been placed on the dollar contribution provided to current and future retirees which was adopted in July of 2005 and is annually indexed by the Consumer Price Index. The premium contributions are paid according to years of service. Retirees must have at least 11 years of service to receive a premium contribution and 25 years or more to receive the maximum contribution. At age 65, the retiree's medical coverage converts to Medicare Supplement. The life insurance benefit is 50% of salary for city participants who were retired or eligible to retire before July 1, 2005. For those participants not eligible to retire before July 1, 2005, the life insurance benefit is 50% of salary, reduced 20% per year after retirement but not below \$10,000. Life insurance is provided at no cost for retirees.

City contributions to normal costs totaling \$11.8 million were made during the year ended June 30, 2011. The funded status of the plan as of June 30, 2011 is as follows:

<i>(In millions)</i>	
Actuarial value of assets	\$ 14.1
Actuarial Accrued Liability	<u>231.9</u>
Unfunded Actuarial Accrued Liability	<u>\$ 217.8</u>

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.

#### **VIRGINIA RETIREMENT SYSTEM (VRS)**

The VRS is administered by the State. The City and Newport News School System (NNSS) contribute to VRS. As of March 1, 2010, the City closed NNERF to new membership; all full-time employees hired or rehired after February 28, 2010 participate in VRS. VRS administers two defined benefit plans for the City and NNSS:

##### **Plan 1**

Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.

##### **Plan 2**

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

The VRS also provides death and disability benefits. Retirees qualify for an annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5% per year.

The total contribution of 9.13% of salary to VRS paid by the City does not include the employee's share set at 5% of salary. The total contribution to VRS paid by NNSS includes 4% of the employee's share set at 5% of salary.

For 2011, the annual pension cost of \$1.1 million and \$14.1 million for the City and NNSS respectively, was equal to the required and actual contributions.

## **COMMITMENTS AND CONTINGENCIES**

See Appendix C, Notes to Financial Statements, Note 12.

## **LITIGATION**

There is no litigation pending, or, to the knowledge of the City Attorney, threatened, affecting the issuance of the Bonds or the security therefor. The City is involved in several lawsuits arising from the ordinary course of City operations. The City is involved in several lawsuits brought by taxpayers that allege erroneous tax assessments and, while these taxpayers are not moving forward with such lawsuits, should the taxpayers prevail, the City would have to appropriate funds for reimbursement.

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## **APPENDIX B**

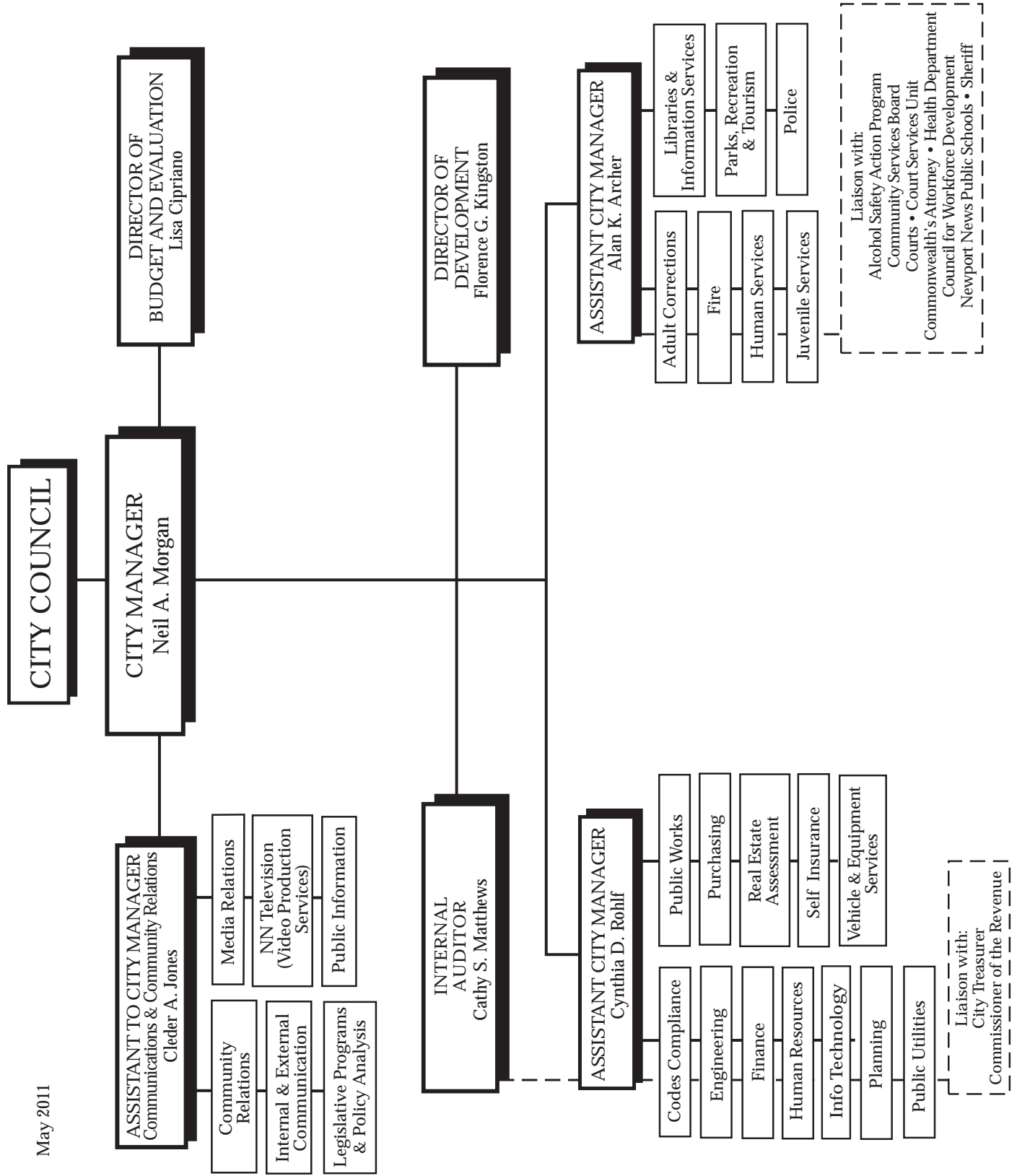
### **ORGANIZATIONAL CHART**

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# CITY OF NEWPORT NEWS, VA

## Organizational Chart



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## **APPENDIX C**

### **FINANCIAL STATEMENTS**

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## **Independent Auditors' Report**

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

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

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

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

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

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

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

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

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

Richmond, Virginia  
December 08, 2011

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

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

The following is a narrative overview and analysis of the financial activities of the City of Newport News, Virginia (the City) as of and for the fiscal year ended June 30, 2011. This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which have the following components: (1) management's discussion and analysis (MD&A), (2) government-wide financial statements, (3) fund financial statements, and (4) notes to the financial statements.

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

#### **General Fund**

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

#### **Governmental Activities**

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

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

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

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

## CITY OF NEWPORT NEWS, VIRGINIA

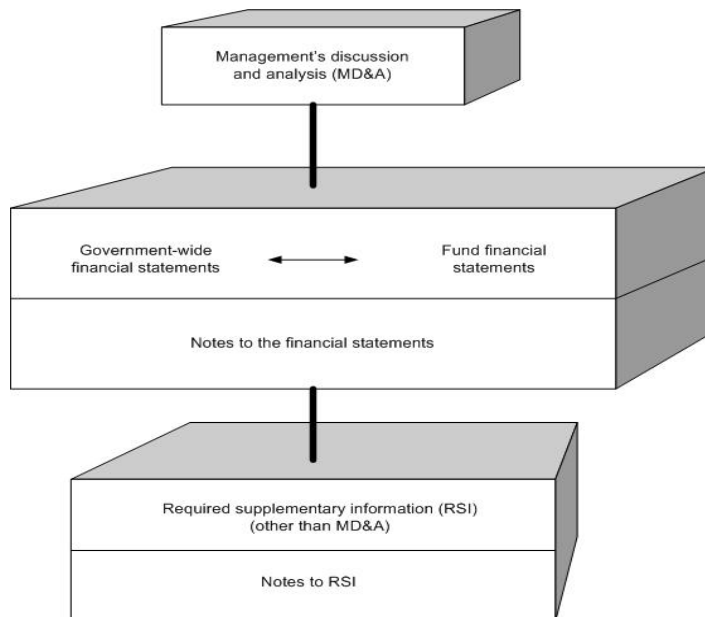
### Management's Discussion and Analysis

- *Governmental fund* statements tell how general government services like public safety were financed in the short term as well as what amounts remain for future spending.
- *Proprietary fund* statements offer short- and long-term financial information about the activities the government operates like businesses, such as the public utilities (water) system.
- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

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

**Figure A**

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



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



## CITY OF NEWPORT NEWS, VIRGINIA

### Management's Discussion and Analysis

#### Government-Wide Statements

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

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

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

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

#### Fund Financial Statements

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

The City has three kinds of funds:

- *Governmental funds* – Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances remaining at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund statements.

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

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

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

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

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

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

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# CITY OF NEWPORT NEWS, VIRGINIA

## Management's Discussion and Analysis

### Statement of Net Assets

The following table reflects the condensed net assets:

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

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

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

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

### Governmental Activities

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

# CITY OF NEWPORT NEWS, VIRGINIA

## Management's Discussion and Analysis

### Business-Type Activities

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

### **Statement of Activities**

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

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

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

## CITY OF NEWPORT NEWS, VIRGINIA

### Management's Discussion and Analysis

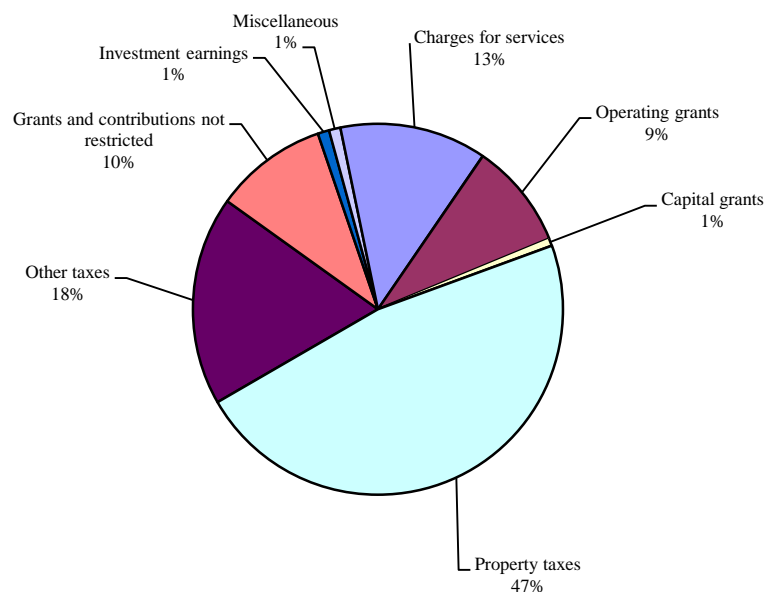
#### Governmental Activities

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

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

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

#### Revenues by Source – Governmental Activities



#### Business-Type Activities

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

## CITY OF NEWPORT NEWS, VIRGINIA

### Management's Discussion and Analysis

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

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

##### General Fund

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

##### Debt Service Fund

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

##### Bond Fund

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

##### Proprietary Funds

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

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

#### GENERAL FUND BUDGETARY HIGHLIGHTS

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

## CITY OF NEWPORT NEWS, VIRGINIA

### Management's Discussion and Analysis

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

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

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

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2011 amounts to \$1,052.9 million (net of depreciation). This investment includes land, buildings and improvements, drainage and water/sewer systems, machinery and equipment, roads, bridges, and construction in progress.

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

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

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

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

## CITY OF NEWPORT NEWS, VIRGINIA

### Management's Discussion and Analysis

#### Long-Term Debt

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**  
Statement of Activities  
Year ended June 30, 2011

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

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**

Balance Sheet  
Governmental Funds  
June 30, 2011

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

See accompanying notes to basic financial statements.

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

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

See accompanying notes to basic financial statements.

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

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

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balance to the Statement of Activities  
Year ended June 30, 2011

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

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. The statement of activities also includes expenses that relate to assets acquired that do not meet the capitalization threshold of the City:

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

Newport News Public Schools, a component unit of the City, allows the City to record its construction in progress and certain capital assets on the City's financial statements for any projects using bond funds as a funding source. The City also records depreciation expense on these assets. These assets will revert back to the Schools when the debt is paid in full. These assets are not reported in the governmental funds.

4,555,266

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

120,393

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

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

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of changes in:

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

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

1,596,150

Change in net assets of governmental activities

\$ (6,230,086)

See accompanying notes to basic financial statements.



**CITY OF NEWPORT NEWS, VIRGINIA**

Statement of Net Assets

Proprietary Funds

June 30, 2011

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

See accompanying notes to basic financial statements.

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

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

See accompanying notes to basic financial statements.

**CITY OF NEWPORT NEWS, VIRGINIA**

Statement of Cash Flows

Proprietary Funds

Year ended June 30, 2011

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

See accompanying notes to basic financial statements.

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

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

See accompanying notes to basic financial statements.

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

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

See accompanying notes to basic financial statements.

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## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2011

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

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

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

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

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

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

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

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

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

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

**June 30, 2011**

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

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

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

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

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

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

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



## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2011

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

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

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

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

The City reports the following major governmental funds:

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

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

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

The City reports the following major proprietary fund:

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

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

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

**June 30, 2011**

Additionally, the City reports the following fund types:

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

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

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

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

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

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

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

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

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

(Continued)

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

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

**June 30, 2011**

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

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

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

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

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

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

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

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

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

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2011

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

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

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

*Real Estate* – Each year as of July 1, the City levies real estate taxes on all real estate within its boundaries, except that exempted by statute. Real estate taxes are levied on the estimated market value of the property and become a lien on real property the first day of the levy year. The City follows the practice of reassessing all property annually. Real estate taxes are collected in semi-annual payments due December 5 and June 5. During the fiscal year, the current year real estate taxes reported as revenue are the levies on assessed valuation on July 1, less an allowance for uncollectible amounts and taxes not collected within 45 days after year-end. The tax rate for 2011 was \$1.10 per \$100 of assessed value.

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

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

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

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

##### General Fund –

##### Taxes receivable:

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

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

(Continued)

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

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

**June 30, 2011**

**(g) *Inventories***

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

**(h) *Capital Assets***

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

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

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

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

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

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

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

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

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

**June 30, 2011**

**(j) *Compensated Absences***

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

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

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

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

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

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

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

(Continued)

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2011

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

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

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

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

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

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

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

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

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

(Continued)

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2011

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

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

### **(m) Encumbrances**

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

### **(2) Deposits and Investments**

#### ***Deposits***

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

(Continued)



## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2011

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

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

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

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

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

### ***Investment Policy***

In accordance with the Code of Virginia and other applicable law, including regulations, the City Investment Policy (Policy) permits investments in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivision thereof, obligations of the

(Continued)

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2011

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

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

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

**Custodial Credit Risk – Deposits:** The City’s deposits at June 30, 2011, were fully insured or collateralized by securities held in the name of the City of Newport News by the City’s custodial banks.

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

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

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2011

<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 (LGIP)	\$ 190,719,733	AAAm	N/A
Money Market Mutual Funds – Underlying:			
U.S. Agencies	1,899,646	AAA	0.25
U.S. Gov. Bonds	905,103	AAAm	0.25
Commonwealth Cash Reserve (AIM) – Underlying:			
U.S. Agencies	3,759,152	AAAm	0.00
VA SNAP	<u>37,707,564</u>	AAAm	0.00
Total Deposits and Investments	<u>\$ 234,991,198</u>		

N/A – Not applicable

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

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

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

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

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

**CITY OF NEWPORT NEWS, VIRGINIA**

## Notes to Basic Financial Statements

June 30, 2011

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

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

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

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

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

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

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

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

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

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

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

(Continued)

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

**2011 Foreign Currency Risk**

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

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**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2011

**(3) Accounts Receivable**

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

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

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

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

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

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

**(4) Capital Assets, Net**

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

**Primary Government**

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

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

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

(Continued)

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2011

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

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

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

### Business-type Activities:

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

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

Public Utility \$14,074,365

(Continued)



**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2011

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

**Discretely Presented Component Units**

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

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

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

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# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2011

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

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

(Continued)

**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2011

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

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

Due to/from other funds:

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

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

Due to / from Primary Government and component units:

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

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

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

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

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

**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2011

**(6) Lease Agreements**

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

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

**Years ending June 30:**

**Land Parcel**

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

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

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

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

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

**CITY OF NEWPORT NEWS, VIRGINIA**

## Notes to Basic Financial Statements

June 30, 2011

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

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

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

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

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

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

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

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

**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2011

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

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

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

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

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

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

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

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

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

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

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

**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2011

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

**Year ending June 30:**

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

**(7) Long-Term Liabilities**

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

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

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

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

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

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

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2011

*Landfill Liability:* The City closed its Denbigh landfill site on June 30, 1996. State and federal laws and regulations require a final cover and the performance of certain maintenance monitoring functions at the site for 30 years after closure. The \$5.4 million liability at June 30, 2011 represents the total estimated cost of closure and postclosure care through fiscal year 2027 and reflects what it would cost to perform all closure/postclosure care in 2011. Actual costs may be higher due to inflation, technology changes or regulation changes.

### Outstanding general obligation bonds at June 30, 2011, of the Primary Government governmental activities are comprised of the following issues:

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

(Continued)



**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2011

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

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

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

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

**Business-Type Activities**

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

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2011

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

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

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

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

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

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2011

#### Public Schools – Component Unit

A summary of changes in long-term liabilities for the discretely presented component unit – Public Schools for the year ended June 30, 2011 follows:

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

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

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

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

#### E/IDA and PAC – Component Units

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

(Continued)

**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2011

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

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

m balance denotes moral obligation of the City

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

a denotes payment agreement with the City

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

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

June 30, 2011

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

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

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

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

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

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

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

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

(Continued)

**CITY OF NEWPORT NEWS, VIRGINIA**

Notes to Basic Financial Statements

June 30, 2011

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

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

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

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

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

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

**(8) Defined Benefit Retirement Plans**

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

**1. Plan Description**

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

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

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

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

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

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

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

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

**2. Concentrations**

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

**3. Contributions Required and Contributions Made**

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

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

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

(000's Omitted)

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



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

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

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

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAI)	Funded ratio	Covered payroll	UAAI as a percentage of covered payroll
June 30, 2011	\$ 641	1,145	(504)	56%	262	-192.4%

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

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

**4. Three-Year Trend Information**

(000's omitted)

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

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

**1. Plan Description**

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

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

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

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

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

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

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

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

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

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

June 30, 2011

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

#### **2. Funding Policy**

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

#### **3. Annual Pension Cost**

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

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

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

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

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2011

### 4. Schedule of Funding Progress

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

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

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

### 5. Funded Status

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

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

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

(in thousands)

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

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

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

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

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

June 30, 2011

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

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

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

The OPEB Trust Fund is a single employer plan administered by the City to provide health, dental and life insurance benefits for City retirees. The Fund has been closed to all hires after July 1, 2009 for the NNSS and after March 1, 2010 for the City. In addition to the closure to new hires during FY2010, NNSS received \$1,587,570 from the Fund to establish and maintain their own OPEB trust. As of June 30, 2011, the City's Fund was valued at \$16.3 million. Benefits and contribution provisions are established by City Ordinance and may be amended only by the City Council. An actuarial service is employed to advise the City Council and the Retirement Board of the contributions necessary to fund the benefits.

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

The assets, income and expenses of the OPEB fund will include NNSS through FY2009.

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

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

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

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

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

# CITY OF NEWPORT NEWS, VIRGINIA

## Notes to Basic Financial Statements

June 30, 2011

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

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

### 2. Contribution Required and Contributions Made

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

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

(in millions)

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

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

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

**Funded Status and Funding Progress**

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

(in millions)

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

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

(in millions)

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

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

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

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

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2011

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

##### 1. Plan Description

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

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

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

The OPEB Trust Fund does not issue a separate report.

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

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

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

(In millions)

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



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

**Funded Status and Funding Progress**

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

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

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

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

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

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

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

**June 30, 2011**

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

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

Employees of the City, except those of the School System, may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Sec. 457 (Deferred Compensation Plans With Respect to Service for State and Local Governments). Under the plan, employees may elect to defer a portion of their salaries and postpone paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency.

The deferred compensation plan is administered by an unrelated financial institution on behalf of the City. Investment options available to employees include common stock, corporate and government bonds, guaranteed interest, or combinations thereof. Under the terms of an IRC Sec. 457 Deferred Compensation Plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts are held by the financial institution, until paid or made available to the employees or beneficiaries.

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

Effective March 1, 2010, all full-time employees of the City, except those of the School System, are automatically enrolled in the HRA Plan adopted under the provision of the IRS Notice 2002-45 and Revenue Ruling 2002-41. Under the plan, the City contributes 3% of the average wage rate paid to all employees. For FY 2011, based on an average City salary of \$42,723, the City is contributing \$1,282 per participant. At year ending June 30, 2011, the City contributed a total of \$344,911 to the HRA accounts. The accumulated amounts are available to participants at retirement or age 55 if terminated prior to reaching retirement eligibility. The Plan reimburses the participant, the participant's spouse, and dependents for insurance premiums or other medical payments expended for permissible benefits described under the plan. HRA participants cannot be members of the City's OPEB Fund.

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

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

**(11) Self Insurance**

**(a) Medical Benefits**

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

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

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

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

**(b) Workers' Compensation**

The City self-insures for workers' compensation through the General Fund up to \$1,750,000 per claim. The School Board has discontinued excess insurance coverage, effective July 1, 2006. Expenditures are charged to the various departments at amounts that approximate what third-party insurers would have charged. Amounts due in future years on claims made as of June 30, 2011 are accounted for in the long-term liabilities. The following is a reconciliation of changes in workers' compensation claims payable for years ended June 30, 2010 and 2011 for the City and the Public Schools.

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

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

(Continued)

## CITY OF NEWPORT NEWS, VIRGINIA

### Notes to Basic Financial Statements

June 30, 2011

#### (c) *Other*

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

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

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

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

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

##### (a) *Grants*

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

##### (b) *Litigation*

The City is involved in several lawsuits arising in the ordinary course of operations. The City is self-insured with respect to automotive liability, general liability, and property damage and workers' compensation. It is the opinion of City management, based on the advice of the City Attorney, that any losses incurred as a result of claims not included in accrued liabilities as of June 30, 2011, will not be material to the financial statements.

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

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

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

(Continued)

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

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

**June 30, 2011**

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

See accompanying notes to required supplementary information

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

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

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

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

Actuarial valuation date		Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2011	City	\$ 14	232	(218)	6%	\$ 119	-183.7%
June 30, 2010*	City	\$ 10	237	(227)	4%	\$ 125	-181.7%
June 30, 2009*	City	\$ 6	215	(209)	3%	\$ 136	-153.8%
June 30, 2009	NNSS	3	180	(177)	2%	184	-96.2%
	Total	9	395	(386)	2%	320	-120.6%
June 30, 2008*	City	\$ 9	194	(185)	5%	\$ 133	-138.4%
June 30, 2008	NNSS	3	194	(191)	2%	180	-106.1%
	Total	12	388	(376)	3%	313	-120.1%

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

See accompanying notes to required supplementary information.

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

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

Year ended June 30, 2011

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

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

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

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

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

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

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

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

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

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

Year ended June 30, 2010

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

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

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

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

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## **APPENDIX D**

### **DESCRIPTION OF THE DEPOSITORY TRUST COMPANY AND THE BOOK-ENTRY SYSTEM**

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## DESCRIPTION OF THE DEPOSITORY TRUST COMPANY AND THE BOOK-ENTRY SYSTEM

**The description which follows of the procedures and recordkeeping with respect to beneficial ownership interests in the Bonds, payments of principal of and interest on the Bonds to The Depository Trust Company (“DTC”), New York, New York, its nominee, Participants, defined below, or Beneficial Owners, defined below, confirmation and transfer of beneficial ownership interests in the Bonds and other related transactions by and between DTC, participants and Beneficial Owners is based solely on information furnished by DTC.**

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued in the aggregate principal amount of each maturity of each series of the Bonds and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on, and the payment of redemption proceeds of, the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Registrar and Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the City or the Registrar and Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Registrar and Paying Agent, disbursement of such payments to Direct Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or to the Registrar and Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this Appendix D concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

## **APPENDIX E**

### **PROPOSED FORMS OF OPINIONS OF BOND COUNSEL**

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PROPOSED FORMS OF OPINIONS OF BOND COUNSEL

Council of the City of Newport News,  
Virginia  
Newport News, Virginia

Dear Councilmembers:

CITY OF NEWPORT NEWS, VIRGINIA,  
GENERAL OBLIGATION GENERAL IMPROVEMENT BONDS,  
SERIES C OF 2012, \$ \_\_\_\_\_

At your request we have examined into the validity of an issue of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) principal amount of General Obligation General Improvement Bonds, Series C of 2012 (the "Bonds"), of the City of Newport News, Virginia (the "City"). The Bonds are dated the date of their delivery, are issued in fully registered form in the denomination of \$5,000 each or any integral multiple thereof and are numbered from GR-2012C-1 upwards in order of issuance. The Bonds mature on September 1 in each of the years and in the principal amounts set forth below, with the Bonds maturing in a particular year bearing interest payable on March 1, 2013 and semiannually on each March 1 and September 1 thereafter at the rate per annum set forth opposite each such year below, to wit:

<u>Year of Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Year of Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2013	\$	%	2023	\$	%
2014			2024		
2015			2025		
2016			2026		
2017			2027		
2018			2028		
2019			2029		
2020			2030		
2021			2031		
2022			2032		

The Bonds maturing on and after September 1, 202\_ are subject to redemption at the option of the City prior to their stated maturities on or after September 1, 202\_ upon the terms and conditions and at the prices stated therein.

The Bonds recite that they are issued under and pursuant to and in full compliance with the Constitution and statutes of the Commonwealth of Virginia, including Chapter 26 of Title 15.2 of the Code of Virginia, 1950 (the same being the Public Finance Act of 1991), the Charter of the City, and ordinances and other proceedings of the Council of the City duly adopted and taken under the Public Finance Act of 1991, for the purpose of providing funds to pay the costs of various public improvement projects of and for the City.

We have examined (i) the Constitution and statutes of the Commonwealth of Virginia, (ii) the Charter of the City, (iii) certified copies of the aforementioned ordinances and other proceedings of the Council of the City in connection with the authorization, issuance, sale and delivery of the Bonds, (iv) such other papers,

instruments, documents and proceedings as we have deemed to be necessary or advisable and (v) a specimen Bond of such issue.

In our opinion, the Bonds have been duly authorized and issued in accordance with the Constitution and statutes of the Commonwealth of Virginia and the Charter of the City and constitute valid and legally binding obligations of the City, and the City Council of the City is authorized and required to levy and collect annually, at the same time and in the same manner as other taxes of the City are assessed, levied and collected, a tax upon all taxable property within the City, over and above all other taxes, authorized or limited by law and without limitation as to rate or amount, sufficient to pay when due the principal of and interest on the Bonds to the extent other funds of the City are not lawfully available and appropriated for such purpose.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to judicial discretion, to the exercise of the sovereign police powers of the Commonwealth of Virginia and the constitutional powers of the United States of America and to valid bankruptcy, insolvency, reorganization, moratorium and other laws affecting the relief of debtors.

In our opinion, under existing statutes and court decisions and assuming continuing compliance by the City with certain tax covenants described herein, interest on the Bonds (i) is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986 (the "Code") and (ii) is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering our opinion, we have relied on certain representations, certifications of fact and statements of reasonable expectations made by the City in connection with the Bonds, and we have assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

[We are further of the opinion that, for any Bonds having original issue discount ("Discount Bonds"), original issue discount that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for federal income tax purposes to the same extent as other interest on the Bonds.]

It is also our opinion that, under the existing statutes of the Commonwealth of Virginia, interest on the Bonds is not includable in computing the Virginia income tax.

We express no opinion regarding other federal or Commonwealth of Virginia tax consequences arising with respect to the Bonds. We are rendering our opinion under existing statutes and court decisions as of the issue date of the Bonds, and we assume no obligation to update, revise or supplement our opinion after the issue date of the Bonds to reflect any action thereafter taken or not taken, or any facts or circumstances that may thereafter come to our attention, or changes in law or interpretations thereof that may thereafter occur, or for any other reason. We express no opinion on the effect of any action taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Bonds or under State or local tax law.

Very truly yours,



Council of the City of Newport News,  
Virginia  
Newport News, Virginia

Dear Councilmembers:

CITY OF NEWPORT NEWS, VIRGINIA,  
GENERAL OBLIGATION REFUNDING BONDS,  
SERIES D OF 2012, \$ \_\_\_\_\_

At your request we have examined into the validity of an issue of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) principal amount of General Obligation Refunding Bonds, Series D of 2012 (the "Bonds"), of the City of Newport News, Virginia (the "City"). The Bonds are dated the date of their delivery, are issued in fully registered form in the denomination of \$5,000 each or any integral multiple thereof and are numbered from GR-2012D-1 upwards in order of issuance. The Bonds mature on September 1 in each of the years and in the principal amounts set forth below, with the Bonds maturing in a particular year bearing interest payable on March 1, 2013 and semiannually on each March 1 and September 1 thereafter at the rate per annum set forth opposite each such year below, to wit:

<u>Year of Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2014	\$	%
2015		
2016		
2017		
2018		
2019		
2020		
2021		

The Bonds are not subject to redemption prior to their stated maturities.

The Bonds recite that they are issued under and pursuant to and in full compliance with the Constitution and statutes of the Commonwealth of Virginia, including Chapter 26 of Title 15.2 of the Code of Virginia, 1950 (the same being the Public Finance Act of 1991), the Charter of the City, and ordinances and other proceedings of the Council of the City duly adopted and taken under the Public Finance Act of 1991, for the purpose of providing funds to refund on a current basis and redeem certain outstanding airport improvement refunding bonds of The Peninsula Airport Commission.

We have examined (i) the Constitution and statutes of the Commonwealth of Virginia, (ii) the Charter of the City, (iii) certified copies of the aforementioned ordinances and other proceedings of the Council of the City in connection with the authorization, issuance, sale and delivery of the Bonds, (iv) such other papers,

instruments, documents and proceedings as we have deemed to be necessary or advisable and (v) a specimen Bond of such issue.

In our opinion, the Bonds have been duly authorized and issued in accordance with the Constitution and statutes of the Commonwealth of Virginia and the Charter of the City and constitute valid and legally binding obligations of the City, and the City Council of the City is authorized and required to levy and collect annually, at the same time and in the same manner as other taxes of the City are assessed, levied and collected, a tax upon all taxable property within the City, over and above all other taxes, authorized or limited by law and without limitation as to rate or amount, sufficient to pay when due the principal of and interest on the Bonds to the extent other funds of the City are not lawfully available and appropriated for such purpose.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to judicial discretion, to the exercise of the sovereign police powers of the Commonwealth of Virginia and the constitutional powers of the United States of America and to valid bankruptcy, insolvency, reorganization, moratorium and other laws affecting the relief of debtors.

In our opinion, under existing statutes and court decisions and assuming continuing compliance by the City with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986 (the "Code"), except that no opinion is expressed as to such exclusion of interest on any Bond for any period during which such Bond is held by a person who, within the meaning of Section 147(a) of the Code, is a "substantial user" of the facilities financed with the proceeds of the Bonds or a "related person", and (ii) interest on the Bonds, however, is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code. In rendering our opinion, we have relied on certain representations, certifications of fact and statements of reasonable expectations made by the City in connection with the Bonds, and we have assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

[We are further of the opinion that, for any Bonds having original issue discount ("Discount Bonds"), original issue discount that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for federal income tax purposes to the same extent as other interest on the Bonds.]

It is also our opinion that, under the existing statutes of the Commonwealth of Virginia, interest on the Bonds is not includable in computing the Virginia income tax.

We express no opinion regarding other federal or Commonwealth of Virginia tax consequences arising with respect to the Bonds. We are rendering our opinion under existing statutes and court decisions as of the issue date of the Bonds, and we assume no obligation to update, revise or supplement our opinion after the issue date of the Bonds to reflect any action thereafter taken or not taken, or any facts or circumstances that may thereafter come to our attention, or changes in law or interpretations thereof that may thereafter occur, or for any other reason. We express no opinion on the effect of any action taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Bonds or under State or local tax law.

Very truly yours,

**APPENDIX F**

**FORM OF CONTINUING DISCLOSURE CERTIFICATE**

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## FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Certificate”), dated September \_\_, 2012, is executed and delivered in connection with the issuance by the City of Newport News, Virginia (the “City”), of \$ \_\_\_\_\_ principal amount of General Obligation General Improvement Bonds, Series C of 2012 (the “Series C of 2012 Bonds”) and \$ \_\_\_\_\_ principal amount of General Obligation Refunding Bonds, Series D of 2012 (the “Series D of 2012 Bonds” and, collectively with the Series C of 2012 Bonds, the “Bonds”) and pursuant to ordinances adopted by the City Council of the City on December 13, 2011 and August 14, 2012, respectively (collectively, the “Ordinance”). Capitalized terms used in this Certificate shall have the respective meanings specified above or in Article I hereof. Pursuant to the Ordinance, the City agrees as follows:

### ARTICLE I

#### Definitions

SECTION 1.1. Definitions. The following terms used in this Certificate shall have the following respective meanings:

(1) “Annual Financial Information” means, collectively, (i) updated versions of the financial information and operating data with respect to the City for each fiscal year included in the City’s Comprehensive Annual Financial Report and updated versions of the financial information and operating data with respect to the City included in the Official Statement and Appendix A to the Official Statement, and (ii) information regarding amendments to this Certificate required pursuant to Sections 4.2(c) and (d) of this Certificate. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in Section 1.1(1)(i) hereof of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information. Any Annual Financial Information containing modified financial information or operating data shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of financial information or operating data being provided.

(2) “Audited Financial Statements” means the annual financial statements, if any, of the City, audited by such auditor as shall then be required or permitted by State law or the Ordinance. Audited Financial Statements shall be prepared in accordance with GAAP; *provided, however*, that, pursuant to Sections 4.2(a) and (e) hereof, the City may from time to time, if required by federal or State legal requirements, modify the accounting principles to be followed in preparing its financial statements. Notice of any such modification required pursuant to Section 4.2(a) hereof shall include a reference to the specific federal or State law or regulation describing such accounting basis.

(3) “Counsel” means Hawkins Delafield & Wood LLP or other nationally recognized bond counsel or counsel expert in federal securities laws.

(4) “GAAP” means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board, the Financial Accounting Standards Board or any successor to the duties and responsibilities of either of them.

(5) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934 or any successor thereto or to the functions of the MSRB contemplated by this Certificate.

(6) “Notice Event” means any of the following events with respect to the Bonds, whether relating to the City or otherwise:

- (i) principal and interest payment delinquencies,
- (ii) non-payment related defaults, if material,
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties,
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties,
- (v) substitution of credit or liquidity providers, or their failure to perform,
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds,
- (vii) modifications to rights of Bondholders, if material,
- (viii) Bond calls, if material, and tender offers,
- (ix) defeasances,
- (x) release, substitution, or sale of property securing repayment of the Bonds, if material,
- (xi) rating changes,
- (xii) bankruptcy, insolvency, receivership or similar event of the City,

Note to clause (xii): For the purposes of the event identified in clause (xii) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under State or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

- (xiii) the consummation of a merger, consolidation or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material, and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(7) “Official Statement” means the Official Statement, dated September \_\_, 2012, of the City relating to the Bonds.

(8) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities and Exchange Act of 1934 as amended (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Certificate, including any

official interpretations thereof issued either before or after the effective date of this Certificate which are applicable to this Certificate.

(9) “SEC” means the United States Securities and Exchange Commission.

(10) “State” means the Commonwealth of Virginia.

(11) “Unaudited Financial Statements” means the same as Audited Financial Statements, except the same shall not have been audited.

(12) “Underwriters” means, collectively, the underwriters of the Series C of 2012 Bonds for whom \_\_\_\_\_ is acting as representative and the underwriters of the Series D of 2012 Bonds for whom \_\_\_\_\_ is acting as representative.

## ARTICLE II

### The Undertaking

SECTION 2.1. Purpose. This Certificate is being executed and delivered solely to assist the Underwriters in complying with paragraph (b)(5) of the Rule.

SECTION 2.2. Annual Financial Information. (a) The City shall provide Annual Financial Information for the City with respect to each fiscal year of the City, commencing with each fiscal year beginning on and after July 1, 2011, by no later than nine (9) months after the end of the respective fiscal year, to the MSRB.

(b) The City shall provide, in a timely manner, notice of any failure of the City to provide the Annual Financial Information by the date specified in subsection (a) above to the MSRB.

SECTION 2.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the dates required by Section 2.2(a) hereof, the City shall provide Audited Financial Statements, when and if available, to the MSRB.

SECTION 2.4. Notice Events. (a) If a Notice Event occurs, the City shall provide, in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event, notice of such Notice Event to the MSRB.

(b) Any notice of defeasance of Bonds shall state whether the Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

SECTION 2.5. Additional Information. Nothing in this Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Certificate or any other means of communication, or including any other information in any Annual Financial Information or notice of Notice Event hereunder, in addition to that which is required by this Certificate. If the City chooses to do so, the City shall have no obligation under this Certificate to update such information or include it in any future Annual Financial Information or notice of Notice Event.

SECTION 2.6. Additional Disclosure Obligations. The City acknowledges and understands that other federal and State laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the City and that, under some circumstance, compliance with this Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the City under such laws.

SECTION 2.7. No Previous Non-Compliance. The City represents that, in the previous five years, it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

## **ARTICLE III**

### **Operating Rules**

SECTION 3.1. Reference to Other Filed Documents. It shall be sufficient for purposes of Section 2.2 hereof if the City provides Annual Financial Information by specific reference to documents (i) available to the public on the MSRB Internet Web site (currently, [www.emma.msrb.org](http://www.emma.msrb.org)) or (ii) filed with the SEC. The provisions of this Section 3.1 shall not apply to notices of Notice Events pursuant to Section 2.4 hereof.

SECTION 3.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents and at one time or in part from time to time.

SECTION 3.3. Dissemination Agents. The City may from time to time designate an agent to act on its behalf in providing or filing notices, documents and information as required of the City under this Certificate and revoke or modify any such designation.

SECTION 3.4. Transmission of Notices, Documents and Information. (a) Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to the MSRB's Electronic Municipal Markets Access (EMMA) system, the current Internet Web address of which is [www.emma.msrb.org](http://www.emma.msrb.org).

(b) All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 3.5. Fiscal Year. (a) The City's current fiscal year is July 1-June 30, and the City shall promptly notify the MSRB of each change in its fiscal year.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than twelve (12) calendar months.

## **ARTICLE IV**

### **Effective Date, Termination, Amendment and Enforcement**

SECTION 4.1. Effective Date; Termination. (a) This Agreement shall be effective upon the issuance of the Bonds.

(b) The City's obligations under this Certificate shall terminate upon legal defeasance, prior redemption or payment in full of all of the Bonds.

(c) This Certificate, or any provision hereof, shall be null and void in the event that (i) the City shall have received an opinion of Counsel, addressed to the City, to the effect that those portions of the Rule which require the provisions of this Certificate, or such provision, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed or otherwise, as shall be specified in such opinion, and (ii) the City shall have delivered copies of such opinion to the MSRB.

SECTION 4.2. Amendment. (a) This Certificate may be amended, by written certificate of the City Manager of the City, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (i) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the City or the type of business conducted thereby, (ii) this Certificate as so amended would have complied with the requirements of the Rule as of the date of this Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (iii) the City shall have received an opinion of Counsel, addressed to the City, to the same effect as set forth in



clause (ii) above, (iv) the City shall have received an opinion of Counsel, addressed to the City, or a determination by an entity, in each case unaffiliated with the City (such as Bond Counsel), addressed to the City, to the effect that the amendment does not materially impair the interests of the holders of the Bonds and (v) the City shall have delivered copies of such opinion(s) and amendment to the MSRB.

(b) This Certificate may be amended, by written certificate of the City Manager of the City, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (i) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Certificate which is applicable to this Certificate, (ii) the City shall have received an opinion of Counsel, addressed to the City, to the effect that performance by the City under this Certificate as so amended will not result in a violation of the Rule and (iii) the City shall have delivered copies of such opinion and amendment to the MSRB.

(c) This Certificate may be amended by written certificate of the City Manager of the City, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (i) the City shall have received an opinion of Counsel, addressed to the City, to the effect that the amendment is permitted by rule, order or other official pronouncement, or is consistent with any interpretive advice or no-action positions of the Staff of the SEC and (ii) the City shall have delivered copies of such opinion and amendment to the MSRB.

(d) To the extent any amendment to this Certificate results in a change in the type of financial information or operating data provided pursuant to this Certificate, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(e) If an amendment is made pursuant to Section 4.2(a) hereof to the accounting principles to be followed by the City in preparing its financial statements, the Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 4.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Certificate shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Certificate. The provisions of this Certificate shall create no rights in any person or entity except as provided in this subsection (a) and subsection (b) of this Section 4.3.

(b) The obligations of the City to comply with the provisions of this Certificate shall be enforceable by the holders of the Bonds, including beneficial owners thereof. The rights of the holders of the Bonds to enforce the provisions of this Certificate shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the City's obligations under this Certificate. In consideration of the third-party beneficiary status of beneficial owners of the Bonds pursuant to subsection (a) of this Section 4.3, beneficial owners shall be deemed to be holders of the Bonds for purposes of this subsection (b).

(c) Any failure by the City to perform in accordance with this Certificate shall not constitute a default under the Bond Ordinance and any rights and remedies provided by the Bond Ordinance upon the occurrence of a default shall not apply to any such failure.

(d) This Certificate shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Certificate shall be instituted in a court of competent jurisdiction in the State; *provided, however,* that, to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of the date first above written.

CITY OF NEWPORT NEWS, VIRGINIA

By: \_\_\_\_\_  
Title: City Manager

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**DETAILED NOTICE OF SALE****\$48,000,000\*****CITY OF NEWPORT NEWS, VIRGINIA,  
GENERAL OBLIGATION GENERAL IMPROVEMENT BONDS, SERIES C OF 2012**

**NOTICE IS HEREBY GIVEN** that electronic bids will be received via the PARITY COMPETITIVE BIDDING SYSTEM (“PARITY”) by the City of Newport News, Virginia (the “City”), until 10:30 A.M. \*, Newport News, Virginia Time, on

**Wednesday, September 12, 2012\***

for the purchase of all, but not less than all, of an issue of \$48,000,000\* principal amount of General Obligation General Improvement Bonds, Series C of 2012, of the City (the “Bonds”).

The Bonds are dated the date of their delivery and mature, subject to the right of prior redemption as hereinafter set forth, on September 1 in each of the following years and in the principal amounts, set forth below:

## Initial Maturity Schedule

<u>Year</u> <u>(September 1)*</u>	<u>Principal Amount</u>	<u>Year</u> <u>(September 1)*</u>	<u>Principal Amount</u>
2013	\$2,400,000	2023	\$2,400,000
2014	2,400,000	2024	2,400,000
2015	2,400,000	2025	2,400,000
2016	2,400,000	2026	2,400,000
2017	2,400,000	2027	2,400,000
2018	2,400,000	2028	2,400,000
2019	2,400,000	2029	2,400,000
2020	2,400,000	2030	2,400,000
2021	2,400,000	2031	2,400,000
2022	2,400,000	2032	2,400,000

The Bonds will bear interest from their date of delivery, payable on March 1, 2013 and semiannually on each March 1 and September 1 thereafter. The record dates for the payment of the principal of and the interest on the Bonds will be February 15, 2013 and each February 15 and August 15 thereafter.

The City reserves the right to change the date for receipt of bids (the “Scheduled Bid Date”) in accordance with the section of this Detailed Notice of Sale entitled “Change of Bid Date and Closing Date; Other Changes to Detailed Notice of Sale”.

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\* Preliminary, subject to change.

## Bid Parameters

Interest		Pricing	
Dated Date:	Date of Delivery	Max. Aggregate Bid Price:	119.0%
Anticipated Delivery Date:	September 27, 2012	Min. Aggregate Bid Price:	102.0%
Interest Payments Dates:	March 1 and September 1	Max. Price per Maturity:	No Limit
First Interest:	March 1, 2013	Min. Price per Maturity:	No Limit
Coupon Multiples:	1/8 or 1/20 of 1%		
Zero Coupons:	Not Allowed		
Split Coupons:	Not Allowed		
Maximum Coupon:	5.50%		
Principal		Procedural	
		Sale Date and Time:	September 12, 2012 at 10:30 A.M., Local Time
Optional Redemption:	On and after September 1, 2022, callable on September 1, 2021 and thereafter at par	Bid Submission:	Electronic bids through PARITY Only
Post-bid Principal Increases in Aggregate:	10%	All or None?	Yes
Post-bid Principal Reductions in Aggregate:	10%	Bid Award Method:	Lowest TIC
Term Bonds:	Any two or more consecutive maturities may be designated as term Bonds	Good Faith Deposit:	1% of aggregate par amount, as more fully described on page G-1-5, under "Good Faith Deposit"

## Changes to Initial Maturity Schedule

The Initial Maturity Schedule set forth above represents an estimate of the principal amount of the Bonds to be sold. The City hereby reserves the right to change the Initial Maturity Schedule, based on market conditions immediately prior to the sale, by announcing any such change not later than one (1) hour prior to the time for receipt of bids via TM3 ([www.tm3.com](http://www.tm3.com)). The resulting schedule of maturities will become the "Bid Maturity Schedule". If no such change is announced, the Initial Maturity Schedule will become the Bid Maturity Schedule.

## Changes to Bid Maturity Schedule

The City hereby further reserves the right to change the Bid Maturity Schedule after the determination of the winning bidder, by increasing or decreasing the aggregate principal amount of the Bonds, subject to the limitation of no more than a 10% increase or decrease in the aggregate principal amount of the Bonds.

THE SUCCESSFUL BIDDER MAY NOT WITHDRAW ITS BID OR CHANGE THE INTEREST RATES BID OR THE INITIAL REOFFERING TERMS (AS HEREAFTER DEFINED) AS A RESULT OF ANY CHANGES MADE TO THE PRINCIPAL AMOUNTS WITHIN THESE LIMITS. The dollar amount bid by the successful bidder will be adjusted to reflect any adjustments in the final aggregate principal amount of the Bonds. Such adjusted bid price will reflect changes in the dollar amount of the underwriters' discount and original issue discount/premium, if any, but will not change the selling compensation per \$1,000 of par amount of Bonds from the selling compensation that would have been received based on the purchase price in the winning bid and the Initial Reoffering Terms. The interest rates specified by the successful bidder for the various maturities at the Initial Reoffering Terms will not change. The City anticipates that the final annual principal amounts and the final aggregate principal amount of the Bonds will be communicated to the successful bidder within twenty-four hours of the City's receipt of the initial public offering prices and yields of the Bonds (the "Initial Reoffering Terms").

### **Book-Entry System**

The Bonds will be issued by means of a book-entry system with no physical distribution of bond certificates made to the public. One bond certificate for each maturity will be issued to The Depository Trust Company, New York, New York ("DTC"), and immobilized in its custody. The book-entry system will evidence beneficial ownership interests of the Bonds in the principal amount of \$5,000 and any multiple thereof, with transfers of beneficial ownership interests effected on the records of DTC participants and, if necessary, in turn by DTC pursuant to rules and procedures established by DTC and its participants. The successful bidder, as a condition to delivery of the Bonds, shall be required to deposit the bond certificates with DTC, registered in the name of Cede & Co., nominee of DTC. Interest on the Bonds will be payable on March 1, 2013 and semiannually on each March 1 and September 1 thereafter, and principal of the Bonds will be payable at maturity or upon prior redemption, to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC, and transfer of principal and interest payments to beneficial owners of the Bonds by participants of DTC will be the responsibility of such participants and other nominees of beneficial owners. The City will not be responsible or liable for such transfers of payments or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds or (b) the City determines that continuation of the book-entry system of evidence and transfer of ownership of the Bonds would adversely affect the interests of the beneficial owners of the Bonds, the City will discontinue the book-entry system with DTC. If the City fails to select another qualified securities depository to replace DTC, the City will deliver replacement Bonds in the form of fully registered bond certificates.

### **Security for the Bonds**

The Bonds will be general obligations of the City, and the full faith and credit of the City will be irrevocably pledged to the punctual payment of the principal of and interest on the Bonds as the same become due. In each year while the Bonds, or any of them, remain outstanding and unpaid, the City Council is authorized and required to levy and collect, as the same time and in the same manner as other taxes of the City are assessed, levied and collected, a tax upon all taxable property within the City, over and above all other taxes authorized or limited by law and without limitation as to rate or amount, sufficient to pay when due the principal of and interest on the Bonds to the extent other funds of the City are not lawfully available and appropriated for such purpose.

The Bonds are being issued for the purpose of paying the costs of public improvement projects of and for the City.

### **Term Bonds and Mandatory Redemption**

The successful bidder may designate two or more of the consecutive serial maturities as one or more term Bond maturities equal in aggregate principal amount of, and with sinking fund requirements corresponding to, such designated serial maturities.

## **Optional Redemption**

The Bonds maturing on or before September 1, 2021 are not subject to redemption prior to their stated maturities. The Bonds maturing on and after September 1, 2022 (or portions thereof in installments of \$5,000) are subject to redemption at the option of the City prior to their stated maturities, on or after September 1, 2021, in whole or in part from time to time on any date, in such order as may be determined by the City (except that if any time less than all of the Bonds of a given maturity are called for redemption, the particular Bonds or portions thereof in installments of \$5,000 of such maturity to be redeemed will be selected by lot), upon payment of a redemption price equal to the principal amount of the Bonds to be redeemed, together with the interest accrued thereon to the date fixed for the redemption thereof.

## **Notice of Redemption**

If any Bond (or any portion of the principal amount thereof in installments of \$5,000) shall be called for redemption, notice of the redemption thereof, specifying the date, number and maturity of such Bond, the date and place or places fixed for its redemption and if less than the entire principal amount of such Bond is to be redeemed, that such Bond must be surrendered in exchange for the principal amount thereof to be redeemed and a new Bond or Bonds issued equaling in principal amount that portion of the principal amount thereof not to be redeemed, shall be mailed not less than thirty (30) days prior to the date fixed for redemption by first class mail, postage prepaid, to the registered owner of such Bond at the address of such registered owner as it appears on the books of registry kept by the Registrar for the Bonds as of the close of business on the forty-fifth (45th) day next preceding the date fixed for redemption. If notice of the redemption of any Bond (or portion thereof in installments of \$5,000) shall have been given as aforesaid, and payment of the principal amount of such Bond (or the portion of the principal amount thereof to be redeemed) and of the accrued interest payable upon such redemption shall have been duly made or provided for, interest on such Bond shall cease to accrue from and after the date so specified for redemption thereof.

So long as the Bonds are in book-entry only form, any notice of redemption shall be given only to DTC or to its nominee. The City shall not be responsible for providing any beneficial owner of the Bonds any notice of redemption.

## ***Electronic Bidding and Bidding Procedures***

### **Registration to Bid**

All prospective bidders must be contracted customers of PARITY. If you do not have a contract with PARITY, call (212) 849-5021 to become a customer. By submitting a bid for the Bonds, a prospective bidder represents and warrants to the City that such bidder's bid for the purchase of the Bonds (if a bid is submitted in connection with the sale) is submitted for and on behalf of such prospective bidder by an officer or agent who is duly authorized to bind the prospective bidder to a legal, valid and enforceable contract for the purchase of the Bonds. By contracting with PARITY a prospective bidder is not obligated to submit a bid in connection with the sale.

IF ANY PROVISIONS OF THIS DETAILED NOTICE OF SALE SHALL CONFLICT WITH INFORMATION PROVIDED BY PARITY AS APPROVED PROVIDER OF ELECTRONIC BIDDING SERVICES, THIS DETAILED NOTICE OF SALE, AS IT MAY BE AMENDED BY THE CITY AS DESCRIBED WITHIN, SHALL CONTROL. Further information about PARITY, including any fee charged, may be obtained from PARITY at (212) 849-5021.

### **Disclaimer**

Each prospective bidder shall be solely responsible to register to bid via PARITY. Each qualified prospective bidder shall be solely responsible to make necessary arrangements to access PARITY for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Detailed Notice of Sale. Neither the City nor PARITY shall have any duty or obligation to undertake such registration to bid for any prospective bidder or to provide or assure such access to any qualified prospective bidder, and neither the City nor



PARITY shall be responsible for a bidder's failure to register to bid or for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by, PARITY. The City is using PARITY as a communication mechanism, and not as the City's agent, to conduct the electronic bidding for the Bonds. The City is not bound by any advice and determination of PARITY to the effect that any particular bid complies with the terms of this Detailed Notice of Sale and in particular the "Bid Specifications" hereinafter set forth. All costs and expenses incurred by prospective bidders in connection with their registration and submission of bids via PARITY are the sole responsibility of the bidders; and the City is not responsible, directly or indirectly, for any of such costs or expenses. If a prospective bidder encounters any difficulty in registering to bid or submitting, modifying or withdrawing a bid for the Bonds, it should telephone PARITY and notify Public Financial Management, Inc., the City's financial advisor, by telephone at (703) 741-0175. After receipt of bids is closed, the City through PARITY will indicate the apparent successful bidder. Such message is a courtesy only for viewers and does not constitute the award of the Bonds. Each bid will remain subject to review by the City to determine its true interest cost rate and compliance with the terms of this Detailed Notice of Sale.

### **Bidding Procedures**

Bids must be submitted electronically for the purchase of the Bonds (all or none) by means of the City of Newport News, Virginia AON Bid Form (the "Bid Form") via PARITY. Bids must be communicated electronically to PARITY by 10:30 A.M., Newport News, Virginia Time, on the Scheduled Bid Date unless postponed as described herein (see "Change of Bid Date and Closing Date"). Prior to that time, a prospective bidder may input and save the proposed terms of its bid in PARITY. Once the final bid has been saved in PARITY, the bidder may select the final bid button in PARITY to submit the bid to PARITY. Once the bids are released electronically via PARITY to the City, each bid will constitute an irrevocable offer to purchase the Bonds on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on PARITY shall constitute the official Newport News, Virginia Time. For information purposes only, bidders are requested to state in their bids the true interest cost to the City, as described under "Award of the Bonds" below, represented by the rate or rates of interest and the bid price specified in their respective bids.

No bids will be accepted in written form, by facsimile transmission or in any other medium or on any system other than by means of the Bid Form via PARITY. No bid will be received after the time for receiving such bids specified above.

### **Good Faith Deposit**

After receipt of bids is closed and prior to the award, the apparent successful bidder indicated on PARITY must submit a good faith deposit (the "Good Faith Deposit") for one percent (1%) of the aggregate par amount of the Bonds to the City by wire transfer. The award to the apparent successful bidder is contingent upon receipt of the Good Faith Deposit and the Bonds will not be awarded to such bidder until the City has confirmation of receipt of the Good Faith Deposit.

Wire instructions for the Good Faith Deposit are as follows:

Bank Name: Bank of America  
ABA Routing #: 026009593  
Account #: 10306736

Award or rejection of bids will be made by or on behalf of the City Council of the City, on the date above stated for the receipt of bids. The proceeds of the Good Faith Deposit will be held as security for the performance by the successful bidder of its bid and applied to the purchase price of the Bonds, but, in the event the successful bidder shall fail to comply with the terms of its bid, the proceeds will be retained as and for full liquidated damages. No interest will be allowed thereon.

## **Award of Bonds**

Award or rejection of bids will be made by the City prior to 5:00 P.M., Newport News, Virginia Time, on the date of receipt of bids. ALL BIDS SHALL REMAIN FIRM UNTIL 5:00 P.M., NEWPORT NEWS, VIRGINIA TIME, ON THE DATE OF RECEIPT OF BIDS. An award of the Bonds, if made, will be made by the City within such period of time (10:30 A.M. – 5:00 P.M.).

The Bonds will be awarded to the bidder offering to purchase the Bonds at the lowest True Interest Cost, such cost to be determined by doubling the semiannual interest rate (compounded semiannually) necessary to discount to the price bid the payments of the principal of and the interest on the Bonds from their payment dates to the dated date of the Bonds.

## **Change of Bid Date and Closing Date; Other Changes to Detailed Notice of Sale**

The City reserves the right to postpone, from time to time, the date and time established for the receipt of bids and will undertake to announce any such change via TM3 ([www.tm3.com](http://www.tm3.com)).

Any postponement of the bid date will be announced via TM3 not later than one (1) hour prior to the announced date and time for receipt of the bids. An alternative bid date and time will be announced via TM3 18 hours prior to such alternative bid date.

On such alternative bid date and time, the City will accept bids for the purchase of the Bonds, such bids to conform in all respects to the provisions of this Detailed Notice of Sale, except for the changes in the date and time for bidding and any other changes announced via TM3 at the time the bid date and time are announced.

The City may change the scheduled delivery date for the Bonds by notice given in the same manner as set forth for a change in the date for the receipt of bids.

The City reserves the right to otherwise change this Detailed Notice of Sale. The City anticipates that it would communicate any such changes via TM3 by 4:00 P.M., Newport News, Virginia Time, on the date prior to the scheduled date for receipt of bids but no later than one (1) hour prior to the scheduled date and time for receipt of bids.

## **Undertakings of the Successful Bidder**

The successful bidder shall make a *bona fide* public offering of all of the Bonds to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers who are not purchasing for their own account as ultimate purchasers without a view to resell) and will, within 30 minutes after being notified of the award of the Bonds, advise the City in writing (via facsimile transmission) of the Initial Reoffering Terms.

Each successful bidder also must submit to the City a certificate (the “Reoffering Price Certificate”), satisfactory to Bond Counsel to the City, prior to the delivery of the Bonds, which states that:

(A) (1) on the date of award, such successful bidder made a *bona fide* public offering of all Bonds of all maturities of the Bonds of the initial offering prices corresponding to the prices or yields indicated in the information furnished in connection with the successful bid, and (2) as of such date, the first price at which an amount equal to at least ten percent (10%) of each maturity of the Bonds was sold to the public was a price not higher or a yield no lower than indicated in the information furnished with the successful bid (the “first price rule”), with the exception of those maturities, if any, identified in such certificate, as to which such certificate shall explain the reasons why the first price rule was not satisfied, or

(B) such successful bidder has purchased Bonds for its own account and not with a view to distribution or resale and not in the capacity of a bond house, broker or other intermediary, and the price or prices at which such purchase was made.

For the purpose of the Reoffering Price Certificate, the “public” does not include bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers. In making such representations, the successful bidder must reflect the effect on the offering prices of any “derivative products” (e.g., a tender option) used by the bidder in connection with the initial sale of any of the Bonds.

It will be the responsibility of the successful bidder to institute such syndicate reporting requirements, to make such investigation, or otherwise to ascertain the facts necessary to enable it to make such certification with reasonable certainty.

### **Opinion of Bond Counsel**

The approving opinion of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the City, in substantially the form appearing in the Preliminary Official Statement, will be furnished without cost to the successful bidder. In the opinion of Bond Counsel, under existing statutes and court decisions and assuming compliance with certain tax covenants described herein, interest on the Bonds (i) is excludable from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986 (the “Code”) and (ii) is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, in the opinion of Bond Counsel, under the existing statutes of the Commonwealth of Virginia, interest on the Bonds is not includable in computing the Virginia income tax.

### **Delivery**

The Bonds will be delivered on or about **Thursday, September 27, 2012**, in New York, New York, at DTC against payment of the purchase price therefor (less the amount of the Good Faith Deposit) in Federal Reserve funds.

There will also be furnished the usual closing papers, including certifications as to the Official Statement and no-litigation.

### **CUSIP Numbers**

CUSIP numbers are to be applied for by the successful bidder with respect to the Bonds. The City will assume no obligation for the assignment of such numbers or for the correctness of such numbers, and no error with respect thereto shall constitute cause for failure or refusal by the successful bidder to accept delivery or make payment for the Bonds.

### **Official Statements**

Copies of the Preliminary Official Statement may be obtained without cost via the Internet at [www.i-dealprospectus.com](http://www.i-dealprospectus.com). The Preliminary Official Statement at its date is “deemed final” by the City for purposes of Rule 15c2-12 (“Rule “15c2-12”) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, but is subject to revision, amendment and completion.

After the award of the Bonds, the City will prepare copies of the Official Statement (no more than 300) and will include therein such additional information concerning the reoffering of the Bonds as the successful bidder may reasonably request; *provided, however*, that the City will not include in the Official Statement a “NRO” (“not reoffered”) designation with respect to any maturity of the Bonds. The successful bidder will be responsible to the City in all respects for the accuracy and completeness of information provided by such successful bidder with respect to such reoffering. The City expects the successful bidder to deliver copies of such Official Statement to persons to whom such bidder initially sells the Bonds and to the Municipal Securities Rulemaking Board (“MSRB”). The successful bidder will be required to acknowledge receipt of such Official Statement, to certify that it has made delivery of the Official Statement to such repositories and to acknowledge that the City expects the successful bidder to deliver copies of such Official Statement to persons to whom such bidder initially sells the Bonds and to certify that the Bonds will only be offered pursuant to such Official Statement and only in states where the offer is legal.

The successful bidder will be responsible to the City in all respects for the accuracy and completeness of information provided by such successful bidder with respect to such reoffering.

Official Statements will be provided within seven (7) business days after the date of the award of the Bonds in such quantities as may be necessary for the successful bidder's regulatory compliance.

### **Continuing Disclosure**

The City will execute and deliver to the purchasers of the Bonds a Continuing Disclosure Certificate pursuant to which the City will covenant and agree, for the benefit of the holders of the Bonds, consistent with the Rule 15c2-12 to provide annual financial information and operating data for the City, including audited financial statements of the City, with nine (9) months after the end of each fiscal year beginning on and after July 1, 2011, and, in a timely manner not in excess of ten (10) business days, notices of certain events with respect to the Bonds, whether relating to the City or otherwise, specified in Rule 15c2-12 and notice of any failure of the City to provide required annual financial information referred to above to the MSRB. The continuing obligation of the City to provide annual financial information and notices referred to above will terminate with respect to the Bonds when the Bonds are no longer outstanding. Any failure by the City to comply with the foregoing will not constitute a default with respect to the Bonds.

### **Further Information**

Further information will be furnished upon application to Public Financial Management, Inc. at (703) 741-0175. Information about PARITY, including any fees charged, may be obtained from PARITY, 1359 Broadway, Second Floor, New York, New York 10018, Telephone (212) 849-5021.

### **Reservation of Rights**

The right to reject any or all bids and to waive any irregularity or informality in any bid is reserved.

Dated: August 31, 2012

**Neil A. Morgan**  
**City Manager**

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**DETAILED NOTICE OF SALE****\$3,605,000\*****CITY OF NEWPORT NEWS, VIRGINIA,  
GENERAL OBLIGATION REFUNDING BONDS, SERIES D OF 2012  
(SUBJECT TO AMT)**

**NOTICE IS HEREBY GIVEN** that electronic bids will be received via the PARITY COMPETITIVE BIDDING SYSTEM ("PARITY") by the City of Newport News, Virginia (the "City"), until 11:00 A.M. \*, Newport News, Virginia Time, on

**Wednesday, September 12, 2012\***

for the purchase of all, but not less than all, of an issue of \$3,605,000\* principal amount of General Obligation Refunding Bonds, Series D of 2012, of the City (the "Bonds").

The Bonds are dated the date of their delivery and mature, subject to the right of prior redemption as hereinafter set forth, on September 1 in each of the following years and in the principal amounts, set forth below:

## Initial Maturity Schedule

<u>Year</u> <u>(September 1)*</u>	<u>Principal Amount</u>
2014	\$305,000
2015	420,000
2016	430,000
2017	455,000
2018	465,000
2019	490,000
2020	515,000
2021	525,000

The Bonds will bear interest from their date of delivery, payable on March 1, 2013 and semiannually on each March 1 and September 1 thereafter. The record dates for the payment of the principal of and the interest on the Bonds will be February 15, 2013 and each February 15 and August 15 thereafter.

The City reserves the right to change the date for receipt of bids (the "Scheduled Bid Date") in accordance with the section of this Detailed Notice of Sale entitled "Change of Bid Date and Closing Date; Other Changes to Detailed Notice of Sale".

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\* Preliminary, subject to change.

**Bid Parameters**

<b>Interest</b>		<b>Pricing</b>	
Dated Date:	Date of Delivery	Max. Aggregate Bid Price:	116.0%
Anticipated Delivery Date:	September 27, 2012	Min. Aggregate Bid Price:	100.0%
Interest Payments Dates:	March 1 and September 1	Max. Price per Maturity:	No Limit
First Interest:	March 1, 2013	Min. Price per Maturity:	No Limit
Coupon Multiples:	1/8 or 1/20 of 1%		
Zero Coupons:	Not Allowed		
Split Coupons:	Not Allowed		
Maximum Coupon:	5.00%		
<b>Principal</b>		<b>Procedural</b>	
		Sale Date and Time:	September 12, 2012 at 11:00 A.M., Local Time
Redemption:	Not Callable	Bid Submission:	Electronic bids through PARITY Only
Post-bid Principal Increases in Aggregate:	10%	All or None?	Yes
Post-bid Principal Reductions in Aggregate:	10%	Bid Award Method:	Lowest TIC
Term Bonds:	Any two or more consecutive maturities may be designated as term Bonds	Good Faith Deposit:	1% of aggregate par amount, as more fully described on page G-2-5, under "Good Faith Deposit"

**Changes to Initial Maturity Schedule**

The Initial Maturity Schedule set forth above represents an estimate of the principal amount of the Bonds to be sold. The City hereby reserves the right to change the Initial Maturity Schedule, based on market conditions immediately prior to the sale, by announcing any such change not later than one (1) hour prior to the time for receipt of bids via TM3 ([www.tm3.com](http://www.tm3.com)). The resulting schedule of maturities will become the "Bid Maturity Schedule". If no such change is announced, the Initial Maturity Schedule will become the Bid Maturity Schedule.

**Changes to Bid Maturity Schedule**

The City hereby further reserves the right to change the Bid Maturity Schedule after the determination of the winning bidder, by increasing or decreasing the aggregate principal amount of the Bonds, subject to the limitation of no more than a 10% increase or decrease in the aggregate principal amount of the Bonds.



THE SUCCESSFUL BIDDER MAY NOT WITHDRAW ITS BID OR CHANGE THE INTEREST RATES BID OR THE INITIAL REOFFERING TERMS (AS HEREAFTER DEFINED) AS A RESULT OF ANY CHANGES MADE TO THE PRINCIPAL AMOUNTS WITHIN THESE LIMITS. The dollar amount bid by the successful bidder will be adjusted to reflect any adjustments in the final aggregate principal amount of the Bonds. Such adjusted bid price will reflect changes in the dollar amount of the underwriters' discount and original issue discount/premium, if any, but will not change the selling compensation per \$1,000 of par amount of Bonds from the selling compensation that would have been received based on the purchase price in the winning bid and the Initial Reoffering Terms. The interest rates specified by the successful bidder for the various maturities at the Initial Reoffering Terms will not change. The City anticipates that the final annual principal amounts and the final aggregate principal amount of the Bonds will be communicated to the successful bidder within twenty-four hours of the City's receipt of the initial public offering prices and yields of the Bonds (the "Initial Reoffering Terms").

### **Book-Entry System**

The Bonds will be issued by means of a book-entry system with no physical distribution of bond certificates made to the public. One bond certificate for each maturity will be issued to The Depository Trust Company, New York, New York ("DTC"), and immobilized in its custody. The book-entry system will evidence beneficial ownership interests of the Bonds in the principal amount of \$5,000 and any multiple thereof, with transfers of beneficial ownership interests effected on the records of DTC participants and, if necessary, in turn by DTC pursuant to rules and procedures established by DTC and its participants. The successful bidder, as a condition to delivery of the Bonds, shall be required to deposit the bond certificates with DTC, registered in the name of Cede & Co., nominee of DTC. Interest on the Bonds will be payable on March 1, 2013 and semiannually on each March 1 and September 1 thereafter, and principal of the Bonds will be payable at maturity or upon prior redemption, to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC, and transfer of principal and interest payments to beneficial owners of the Bonds by participants of DTC will be the responsibility of such participants and other nominees of beneficial owners. The City will not be responsible or liable for such transfers of payments or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds or (b) the City determines that continuation of the book-entry system of evidence and transfer of ownership of the Bonds would adversely affect the interests of the beneficial owners of the Bonds, the City will discontinue the book-entry system with DTC. If the City fails to select another qualified securities depository to replace DTC, the City will deliver replacement Bonds in the form of fully registered bond certificates.

### **Security for the Bonds**

The Bonds will be general obligations of the City, and the full faith and credit of the City will be irrevocably pledged to the punctual payment of the principal of and interest on the Bonds as the same become due. In each year while the Bonds, or any of them, remain outstanding and unpaid, the City Council is authorized and required to levy and collect, as the same time and in the same manner as other taxes of the City are assessed, levied and collected, a tax upon all taxable property within the City, over and above all other taxes authorized or limited by law and without limitation as to rate or amount, sufficient to pay when due the principal of and interest on the Bonds to the extent other funds of the City are not lawfully available and appropriated for such purpose.

The Bonds are being issued for the purpose of paying the costs of refunding on a current basis certain outstanding bonds of The Peninsula Airport Commission in order to generate net present value debt service savings of at least 3% of the refunded par amount. The City reserves the right to reject any bids that do not meet this requirement.

### **Redemption**

The Bonds are not subject to redemption prior to their stated maturities.

## ***Electronic Bidding and Bidding Procedures***

### **Registration to Bid**

All prospective bidders must be contracted customers of PARITY. If you do not have a contract with PARITY, call (212) 849-5021 to become a customer. By submitting a bid for the Bonds, a prospective bidder represents and warrants to the City that such bidder's bid for the purchase of the Bonds (if a bid is submitted in connection with the sale) is submitted for and on behalf of such prospective bidder by an officer or agent who is duly authorized to bind the prospective bidder to a legal, valid and enforceable contract for the purchase of the Bonds. By contracting with PARITY a prospective bidder is not obligated to submit a bid in connection with the sale.

IF ANY PROVISIONS OF THIS DETAILED NOTICE OF SALE SHALL CONFLICT WITH INFORMATION PROVIDED BY PARITY AS APPROVED PROVIDER OF ELECTRONIC BIDDING SERVICES, THIS DETAILED NOTICE OF SALE, AS IT MAY BE AMENDED BY THE CITY AS DESCRIBED WITHIN, SHALL CONTROL. Further information about PARITY, including any fee charged, may be obtained from PARITY at (212) 849-5021.

### **Disclaimer**

Each prospective bidder shall be solely responsible to register to bid via PARITY. Each qualified prospective bidder shall be solely responsible to make necessary arrangements to access PARITY for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Detailed Notice of Sale. Neither the City nor PARITY shall have any duty or obligation to undertake such registration to bid for any prospective bidder or to provide or assure such access to any qualified prospective bidder, and neither the City nor PARITY shall be responsible for a bidder's failure to register to bid or for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by, PARITY. The City is using PARITY as a communication mechanism, and not as the City's agent, to conduct the electronic bidding for the Bonds. The City is not bound by any advice and determination of PARITY to the effect that any particular bid complies with the terms of this Detailed Notice of Sale and in particular the "Bid Specifications" hereinafter set forth. All costs and expenses incurred by prospective bidders in connection with their registration and submission of bids via PARITY are the sole responsibility of the bidders; and the City is not responsible, directly or indirectly, for any of such costs or expenses. If a prospective bidder encounters any difficulty in registering to bid or submitting, modifying or withdrawing a bid for the Bonds, it should telephone PARITY and notify Public Financial Management, Inc., the City's financial advisor, by telephone at (703) 741-0175. After receipt of bids is closed, the City through PARITY will indicate the apparent successful bidder. Such message is a courtesy only for viewers and does not constitute the award of the Bonds. Each bid will remain subject to review by the City to determine its true interest cost rate and compliance with the terms of this Detailed Notice of Sale.

### **Bidding Procedures**

Bids must be submitted electronically for the purchase of the Bonds (all or none) by means of the City of Newport News, Virginia AON Bid Form (the "Bid Form") via PARITY. Bids must be communicated electronically to PARITY by 11:00 A.M., Newport News, Virginia Time, on the Scheduled Bid Date unless postponed as described herein (see "Change of Bid Date and Closing Date"). Prior to that time, a prospective bidder may input and save the proposed terms of its bid in PARITY. Once the final bid has been saved in PARITY, the bidder may select the final bid button in PARITY to submit the bid to PARITY. Once the bids are released electronically via PARITY to the City, each bid will constitute an irrevocable offer to purchase the Bonds on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on PARITY shall constitute the official Newport News, Virginia Time. For information purposes only, bidders are requested to state in their bids the true interest cost to the City, as described under "Award of the Bonds" below, represented by the rate or rates of interest and the bid price specified in their respective bids.

No bids will be accepted in written form, by facsimile transmission or in any other medium or on any system other than by means of the Bid Form via PARITY. No bid will be received after the time for receiving such bids specified above.

## **Good Faith Deposit**

After receipt of bids is closed and prior to the award, the apparent successful bidder indicated on PARITY must submit a good faith deposit (the "Good Faith Deposit") for one percent (1%) of the aggregate par amount of the Bonds to the City by wire transfer. The award to the apparent successful bidder is contingent upon receipt of the Good Faith Deposit and the Bonds will not be awarded to such bidder until the City has confirmation of receipt of the Good Faith Deposit.

Wire instructions for the Good Faith Deposit are as follows:

Bank Name: Bank of America  
ABA Routing #: 026009593  
Account #: 10306736

Award or rejection of bids will be made by or on behalf of the City Council of the City, on the date above stated for the receipt of bids. The proceeds of the Good Faith Deposit will be held as security for the performance by the successful bidder of its bid and applied to the purchase price of the Bonds, but, in the event the successful bidder shall fail to comply with the terms of its bid, the proceeds will be retained as and for full liquidated damages. No interest will be allowed thereon.

## **Award of Bonds**

Award or rejection of bids will be made by the City prior to 5:00 P.M., Newport News, Virginia Time, on the date of receipt of bids. ALL BIDS SHALL REMAIN FIRM UNTIL 5:00 P.M., NEWPORT NEWS, VIRGINIA TIME, ON THE DATE OF RECEIPT OF BIDS. An award of the Bonds, if made, will be made by the City within such period of time (11:00 A.M. – 5:00 P.M.).

The Bonds will be awarded to the bidder offering to purchase the Bonds at the lowest True Interest Cost, such cost to be determined by doubling the semiannual interest rate (compounded semiannually) necessary to discount to the price bid the payments of the principal of and the interest on the Bonds from their payment dates to the dated date of the Bonds.

## **Change of Bid Date and Closing Date; Other Changes to Detailed Notice of Sale**

The City reserves the right to postpone, from time to time, the date and time established for the receipt of bids and will undertake to announce any such change via TM3 ([www.tm3.com](http://www.tm3.com)).

Any postponement of the bid date will be announced via TM3 not later than one (1) hour prior to the announced date and time for receipt of the bids. An alternative bid date and time will be announced via TM3 18 hours prior to such alternative bid date.

On such alternative bid date and time, the City will accept bids for the purchase of the Bonds, such bids to conform in all respects to the provisions of this Detailed Notice of Sale, except for the changes in the date and time for bidding and any other changes announced via TM3 at the time the bid date and time are announced.

The City may change the scheduled delivery date for the Bonds by notice given in the same manner as set forth for a change in the date for the receipt of bids.

The City reserves the right to otherwise change this Detailed Notice of Sale. The City anticipates that it would communicate any such changes via TM3 by 4:00 P.M., Newport News, Virginia Time, on the date prior to the scheduled date for receipt of bids but no later than one (1) hour prior to the scheduled date and time for receipt of bids.

## Undertakings of the Successful Bidder

The successful bidder shall make a *bona fide* public offering of all of the Bonds to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers who are not purchasing for their own account as ultimate purchasers without a view to resell) and will, within 30 minutes after being notified of the award of the Bonds, advise the City in writing (via facsimile transmission) of the Initial Reoffering Terms.

Each successful bidder also must submit to the City a certificate (the “Reoffering Price Certificate”), satisfactory to Bond Counsel to the City, prior to the delivery of the Bonds, which states that:

(A) (1) on the date of award, such successful bidder made a *bona fide* public offering of all Bonds of all maturities of the Bonds of the initial offering prices corresponding to the prices or yields indicated in the information furnished in connection with the successful bid, and (2) as of such date, the first price at which an amount equal to at least ten percent (10%) of each maturity of the Bonds was sold to the public was a price not higher or a yield no lower than indicated in the information furnished with the successful bid (the “first price rule”), with the exception of those maturities, if any, identified in such certificate, as to which such certificate shall explain the reasons why the first price rule was not satisfied, or

(B) such successful bidder has purchased Bonds for its own account and not with a view to distribution or resale and not in the capacity of a bond house, broker or other intermediary, and the price or prices at which such purchase was made.

For the purpose of the Reoffering Price Certificate, the “public” does not include bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers. In making such representations, the successful bidder must reflect the effect on the offering prices of any “derivative products” (e.g., a tender option) used by the bidder in connection with the initial sale of any of the Bonds.

It will be the responsibility of the successful bidder to institute such syndicate reporting requirements, to make such investigation, or otherwise to ascertain the facts necessary to enable it to make such certification with reasonable certainty.

## Opinion of Bond Counsel

The approving opinion of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the City, in substantially the form appearing in the Preliminary Official Statement, will be furnished without cost to the successful bidder. In the opinion of Bond Counsel, under existing statutes and court decisions and assuming compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986 (the “Code”), **except that no opinion is expressed as to such exclusion of interest on any Bond for any period during which such Bond is held by a person who, within the meaning of Section 147(a) of the Code, is a “substantial user” of the facilities financed with the proceeds of the Bonds or a “related person”,** and (ii) **interest on the Bonds, however, is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code.** In addition, in the opinion of Bond Counsel, under the existing statutes of the Commonwealth of Virginia, interest on the Bonds is not includable in computing the Virginia income tax.

## Delivery

The Bonds will be delivered on or about **Thursday, September 27, 2012**, in New York, New York, at DTC against payment of the purchase price therefor (less the amount of the Good Faith Deposit) in Federal Reserve funds.

There will also be furnished the usual closing papers, including certifications as to the Official Statement and no-litigation.

## **CUSIP Numbers**

CUSIP numbers are to be applied for by the successful bidder with respect to the Bonds. The City will assume no obligation for the assignment of such numbers or for the correctness of such numbers, and no error with respect thereto shall constitute cause for failure or refusal by the successful bidder to accept delivery or make payment for the Bonds.

## **Official Statements**

Copies of the Preliminary Official Statement may be obtained without cost via the Internet at [www.i-dealprospectus.com](http://www.i-dealprospectus.com). The Preliminary Official Statement at its date is “deemed final” by the City for purposes of Rule 15c2-12 (“Rule “15c2-12”) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, but is subject to revision, amendment and completion.

After the award of the Bonds, the City will prepare copies of the Official Statement (no more than 300) and will include therein such additional information concerning the reoffering of the Bonds as the successful bidder may reasonably request; *provided, however*, that the City will not include in the Official Statement a “NRO” (“not reoffered”) designation with respect to any maturity of the Bonds. The, successful bidder will be responsible to the City in all respects for the accuracy and completeness of information provided by such successful bidder with respect to such reoffering. The City expects the successful bidder to deliver copies of such Official Statement to persons to whom such bidder initially sells the Bonds and to the Municipal Securities Rulemaking Board (“MSRB”). The successful bidder will be required to acknowledge receipt of such Official Statement, to certify that it has made delivery of the Official Statement to such repositories and to acknowledge that the City expects the successful bidder to deliver copies of such Official Statement to persons to whom such bidder initially sells the Bonds and to certify that the Bonds will only be offered pursuant to such Official Statement and only in states where the offer is legal. The successful bidder will be responsible to the City in all respects for the accuracy and completeness of information provided by such successful bidder with respect to such reoffering.

Official Statements will be provided within seven (7) business days after the date of the award of the Bonds in such quantities as may be necessary for the successful bidder’s regulatory compliance.

## **Continuing Disclosure**

The City will execute and deliver to the purchasers of the Bonds a Continuing Disclosure Certificate pursuant to which the City will covenant and agree, for the benefit of the holders of the Bonds, consistent with the Rule 15c2-12 to provide annual financial information and operating data for the City, including audited financial statements of the City, with nine (9) months after the end of each fiscal year beginning on and after July 1, 2011, and, in a timely manner not in excess of ten (10) business days, notices of certain events with respect to the Bonds, whether relating to the City or otherwise, specified in Rule 15c2-12 and notice of any failure of the City to provide required annual financial information referred to above to the MSRB. The continuing obligation of the City to provide annual financial information and notices referred to above will terminate with respect to the Bonds when the Bonds are no longer outstanding. Any failure by the City to comply with the foregoing will not constitute a default with respect to the Bonds.

## **Further Information**

Further information will be furnished upon application to Public Financial Management, Inc. at (703) 741-0175. Information about PARITY, including any fees charged, may be obtained from PARITY, 1359 Broadway, Second Floor, New York, New York 10018, Telephone (212) 849-5021.

**Reservation of Rights**

The right to reject any or all bids and to waive any irregularity or informality in any bid is reserved.

Dated: August 31, 2012

**Neil A. Morgan**  
**City Manager**