



## MEMORANDUM

TO: The Mayor, Members of City Council and City Manager

FROM: Karl Daughtrey, Director of Finance

RE: Financial Results, FYE June 30, 2019

Date: December 11, 2019

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It is my pleasure, on the behalf of the City's Finance Department staff, to present the Comprehensive Annual Financial Report (CAFR) for the City of Hampton for the fiscal year ended June 30, 2019.

The CAFR is organized in six (6) major sections: 1) Introduction (pages 1 to 15); 2) Financial section including the Independent Auditor's Report (pages 16 to 134); 3) Required Supplemental Information (pages 135 to 154); 4) Combining and Individual Financial Statements (pages 155 to 177); 4) Supplementary Information (pages 178 to 197); 5) Statistical Tables with historical financial data and demographic information about the City (pages 198 to 217); and 6) Independent Auditor's Compliance and Internal Control Reports and Schedule of Findings and Questioned Costs (pages 218-225).

### **Key Sections to Review:**

Page 12 contains the actual results for compliance with the City's five (5) financial policies. **We are in compliance with all financial policies.**

The Independent Auditors' Opinion is on pages 16 to 18 of the report. The Auditors have issued an unmodified opinion, or "clean" opinion on the City's CAFR.

Pages 19 to 26 contain the **Management's Discussion and Analysis (MD&A)**, a narrative introduction and analytical overview of the City's financial activities, similar to the analysis provided by publicly traded companies in their annual reports.

Component units are entities that are legally separate from the City, but for which the City is financially accountable, and whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. We reported the following component units in the CAFR: Hampton School Board, Coliseum Central Business Improvement District, Inc., the Downtown Hampton Development Partnership, Inc. and the Economic Development Authority. Their financial statements are on pages 42 to 43.

### Finance Department

22 Lincoln Street | Hampton, Virginia 23669  
[www.hampton.gov](http://www.hampton.gov) | P: (757) 727-6230

Pages 155 to 164 contain the Balance Sheet, Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual, Schedule of Revenues and Other Credits-Budget and Actual, and Schedule of Appropriations and Expenditures for the General Fund.

The School Board financial statements are on pages 175 to 177.

The Schedule of Treasurer's Accountability, Schedule 1, on page 178, **reflects that cash and investments are in balance with the Treasurer's Office as of June 30, 2019.**

Pages 222 to 225 contain the Schedule of Findings and Questioned Costs. **There is one finding for the School Board and two findings for the City.**

**Finding 2019-001: The Child Nutrition Federal Grant requires the School Board to verify a sample of applications that it has approved for free and reduced price meals. Of the thirty-eight (38) applications verified by the School Board, one application was not changed to the correct status as a result of the verification process. In the future, the School Board will print the application history report and make sure the benefit changed is noted on this report.**

**Finding 2019-002: The State requires the Department of Social Services to appoint and train two Local Security Officers (LSO) to act as the single focal point to the department's computer applications. There was only one LSO appointed and trained. The Department of Social Services has identified an employee that will serve as the alternate to the primary LSO.**

**Finding 2019-003: The State requires the LSO in the Department of Social Services to annually review all employees' access to each computer application with the employee's supervisor to ensure that the access is properly aligned with their job responsibilities. Of the twenty employees reviewed by Cherry Bekaert, one employee access had not been reviewed by the LSO. The Department of Social Services will make sure that the Information Technology Annual Privileges Form is completed and on file for each employee.**

### **Key Financial Results:**

#### **General Fund**

The City's General Fund finished the fiscal year with revenues exceeding expenditures (an increase in overall fund balance) by approximately \$2.66 million.

Actual revenues were slightly more than estimated revenues (excluding Appropriations from Fund Balance and Schools) by \$4.1 million or approximately 1.2%. Actual expenditures were under appropriations (including Transfers and excluding Budget Savings) by \$17 million, or 4.8%.

During fiscal year 2019, the City's unassigned fund balance (formerly referred to as undesignated fund balance) increased by \$13.3 million to \$74.8 million. The unassigned fund balance represents 15.8% of actual revenues for the General and School Operating Funds

which exceeds the 10% policy threshold by 5.8%. For the committed fund balance – budget savings program, we added approximately \$1.9 million from net savings generated by departments during fiscal year 2019.

Revenues (in millions):

	FY19 Budget	FY19 Actual	FY19 Actual As a % of Budget	FY18 Actual As a % of Budget
General Property Taxes	\$ 164.7	\$ 166.3	101.0%	101.1%
State/Federal Revenues	65.6	66.4	101.2%	100.5%
Other Revenues	39.8	42.3	106.3%	103.9%
Meal Taxes	21.1	22.1	104.7%	101.0%
Sales & Use Taxes	15.6	15.7	100.6%	96.8%
Business License Tax	12.4	14.2	114.5%	103.2%
Communication Sales Tax	8.4	7.8	92.9%	96.6%
Special Assessments	5.7	2.5	43.9%	94.7%
Lodging	4.0	4.1	102.5%	105.3%
Total:	<u>\$ 337.3</u>	<u>\$ 341.4</u>	101.2%	101.0%

(1) Excludes appropriations from fund balance

General Property Taxes, Meal Tax, Business License Tax, and Other Revenues tracked favorably, above budget. The unfavorable variances in revenues are primarily attributable to Communication Sales Tax, Tobacco Tax and Special Assessments.

Some of the more significant favorable (actual exceeds budget) and unfavorable (actual is less than budget) variances in revenues for fiscal year 2019 are as follows:

	<b>VARIANCE FAVORABLE (UNFAVORABLE)</b>
<b>GENERAL PROPERTY TAXES:</b> Actual exceeding the budget because of supplemental real estate assessments for additions/new construction.	<b>\$1.6M</b>
<b>BUSINESS LICENSE TAX:</b> Audit assessments and collections from prior years along with an increase in the number of business licenses issued.	<b>\$1.8M</b>
<b>INTEREST FROM INVESTMENTS:</b> The Federal Reserve increased their interest rates two times during fiscal year 2019. This has positively impacted some of the investment interest rates.	<b>\$1.2M</b>
<b>MEAL TAX:</b> Continues to show steady growth.	<b>\$1.0M</b>
<b>PUBLIC ASSISTANCE STATE/FEDERAL REVENUES:</b> Revenues are a function of the level of expenditures and the federal reimbursement rate for various programs. Revenue and the reimbursement rate were more than budgeted.	<b>\$0.7M</b>
<b>SPECIAL ASSESSMENTS:</b> Collections were less than the revenue estimate.	<b>(\$3.2M)</b>
<b>COMMUNICATION TAX:</b> Continues to decline. Tax has eroded over the years compared to \$9.0M collected in FY2008. Collections in FY19 \$7.8M	<b>(\$0.6M)</b>
<b>TOBACCO TAX:</b> Refunds were issued for damaged stamps and the tobacco users shift to vaping.	<b>(\$0.2M)</b>

Expenditures (in millions):

	<u>FY19 Appropriations</u>	<u>FY19 Actual Expenditures</u>	<u>Favorable Variance</u>
City Departments*	\$ 209.2	\$ 195.6	\$ (13.6)
Transfer to Schools	73.8	73.8	-
Transfer to Other Funds**	<u>72.7</u>	<u>69.3</u>	<u>(3.4)</u>
Total:	<u>\$ 355.7</u>	<u>\$ 338.7</u>	<u>\$ (17.0)</u>

\*Excludes budget savings

\*\*Transfer to Other Funds includes the following transfers: transfer to the Debt Service Fund, transfer to fund Capital Projects, contributions to match City Grants, and the transfer of 2+2 lodging and meal taxes to pay Convention Center debt.

An analysis of the significant favorable variances in appropriations reveals the following:

	<b>VARIANCE FAVORABLE (UNFAVORABLE)</b>
<b>POSITION AND BENEFIT SAVINGS PRIMARILY FROM VACANT POSITIONS</b>	<b>\$6.5M</b>
<b>TRANSFERS TO OTHER FUNDS: Debt Service savings (\$3.1), Special Revenue (\$356K), and Capital Projects (\$8K)</b>	<b>\$3.4M</b>
<b>SPECIAL ASSESSMENTS: Collections were less than the revenue estimate.</b>	<b>\$3.2M</b>

### **Hampton Roads Coliseum/Hampton Arts Commission**

The Hampton Coliseum/Hampton Arts Commission's financial statements are presented on pages 167-169. The Hampton Coliseum/Hampton Arts Commission Fund accounted for as an Enterprise Fund which functions similar to a private for profit business. The Hampton Coliseum/Hampton Arts Commission Fund generated a net profit of \$507 thousand in fiscal year 2019, mainly attributed to increase in ticket sales. Total operating revenues increased by \$3.4M or 33% from the prior fiscal year. The increase is primarily attributed to the Phish show - which generated \$2.7M in gross ticket sales. While on the other hand, expenses increased \$3M or 26% from the prior year. As the majority of expenses are event driven, this increase is primarily attributed to the \$2.6M or 57% increase in promoter fees along with miscellaneous show expenses.

### **Hampton Roads Convention Center (HRCC)**

The Convention Center's financial statements are presented on pages 34-39. The Convention Center Fund is accounted for as an Enterprise Fund which functions similar to private for profit businesses. The Convention Center Fund generated a positive change in net position of \$1.3 million (previously referred to as "net income"). The 2+2 meal and lodging taxes increased by \$351,000 over fiscal year 2018 .Also, investments generated interest income of \$178,000 and market value appreciation of \$118,000 over the fiscal year 2018 actual. Some of the fiscal year 2019 single events generating event-related income over \$80,000 included: Jurassic Quest, LLC, NekkoCon 21, Mid-Atlantic Quilt Festival and Hampton Roads Tattoo & Arts Festival Convention.

### **The Hamptons and Woodlands Golf Course**

The Hamptons and Woodlands Golf Courses financial statements are presented on pages 34-39 and 167-169, respectively. Both golf courses are accounted for as an Enterprise Fund which functions similar to a for profit business. The Hamptons and Woodlands incurred a net loss (before depreciation expense) of \$384,611 and \$199,750, respectively, during fiscal year 2019. Both Golf Courses did not generate sufficient cash from operations to cover all of their operating expenses and they had to borrow cash from the General Fund; the Hamptons and Woodlands had cash deficits of \$386,943 and \$213,183, respectively. Total rounds of golf decreased 16% for The Hamptons and 14% for the Woodlands during fiscal year 2019. The decrease in revenue is a direct result of continuous wet course conditions and the fact that Millennials are not playing golf to the same extent as previous generations.

### **Steam Plant**

The Steam Plant's financial statements are presented on pages 167-169. The Steam Plant is an Enterprise Fund with revenues that are derived from solid waste disposal fee (tipping fee) charged to the Solid Waste Fund, the sale of steam to the U.S. Government, and user fees charged to other external customers. The Steam Plant generated net income of \$1.7 million in fiscal year 2019. Commercial usage revenue was slightly above target due to an increase in commercial hauler trips during the year. Total operating expenses increased 13.01% due in part to improvements to the building.

## **Solid Waste**

The Solid Waste's financial statements are presented on pages 167-169. The Solid Waste Fund is accounted for as an Enterprise Fund which functions similar to a private for profit business. The Solid Waste Fund generated net income of \$1 million in fiscal year 2019. Revenues decreased by \$397,176 from fiscal year 2018, primarily due to a billing cycle change for user fees from bi-monthly to monthly in FY19. Operating expenses increased by \$851,744 from fiscal year 2018. This increase is primarily attributed to the Chinese Initiative which drastically limited exports of recyclables from the United States, and an increase in repairs and part expenses due to an aging vehicle fleet.

## **Closing Comments**

I would like to thank the Finance Department staff for their dedication and untiring efforts in maintaining accurate financial records, the long hours they worked to close the City's funds, assisting the external auditors, and preparing the CAFR. I feel honored to have each of them on my team.

If you have any questions concerning the report, please contact me.