

HAMPTON VA

MEMORANDUM

TO: The Mayor, Members of City Council and City Manager
FROM: Karl Daughtrey, Director of Finance
RE: Financial Results, FYE June 30, 2016
Date: December 8, 2016

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, 2016.

The CAFR is organized in six (6) major sections: 1) Introduction (pages 1 to 16); 2) Financial section including the Independent Auditor's Report (pages 17 to 111); 3) Required Supplemental Information (pages 112 to 120); 4) Combining and Individual Financial Statements (pages 121 to 143); 4) Supplementary Information (pages 144 to 162); 5) Statistical Tables with historical financial data and demographic information about the City (pages 163 to 182); and 6) Independent Auditor's Compliance and Internal Control Reports and Schedule of Findings and Questioned Costs (pages 183 to 192).

Key Sections to Review:

Page 13 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 17 to 19 of the report. The Auditors have issued an unmodified opinion, or "clean" opinion on the City's CAFR.

Pages 20 to 27 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 report 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 43 to 44.

Pages 121 to 130 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 141 to 143.

The Schedule of Treasurer's Accountability, Schedule 1, on page 144, **reflects that cash and investments are in balance with the Treasurer's Office as of June 30, 2016.**

Pages 187 to 192 contain a Schedule of Findings and Questioned Costs. **There are four findings for fiscal year 2016.**

Finding 2016-001: The Auditor discovered one invoice for the Waste Management Fund for \$54,316 that had not been recorded in the fiscal year 2016. We did not record this invoice because it did not meet or exceed the \$60,000 threshold amount as agreed to by the current Auditor. Commencing with the fiscal year 2017 audit, we will revise our year-end procedures to include lower threshold amounts for determining which expenditures should be recorded as accounts payable in the current year.

Finding 2016-002: During the testing of the Community Development Block Grant (CDBG) program, the Auditor noted that the Activity Summary Report (C04PR03) was submitted to the Department of Housing and Urban Development (HUD) after the due date of the report and the CDBG Financial Summary Report (C04PR26) was not submitted to HUD. For fiscal year 2016, HUD required the City to submit the Consolidated Annual Performance and Evaluation Report (CAPER) via an online process. The new Integrated Disbursements and Information System (IDIS) CAPER template did not allow for the C04PR03 and C04PR26 reports to be uploaded. Therefore, staff did not include these reports, because it appeared that these documents were not required under the new reporting system. After the CAPER was filed, HUD Field Office staff contacted the Community Development Department (CDD) staff to request the C04PR26 report and we submitted this report to them. Since HUD staff did not request a copy of the C04PR03 report, we did not file this report. The CDD staff will electronically file the C04PR03 and C04PR26 reports along with the submission of the CAPER for the fiscal year 2017 reports.

Finding 2016-003: During the testing of the Community Development Block Grant (CDBG) program, the Auditor stated that the City had not performed all of the required subrecipient monitoring activities for Hampton Redevelopment and Housing Authority. The City conducted an extensive list of subrecipient monitoring activities for fiscal year 2016 that may have not always been supported by documentation in our files. We will create a comprehensive subrecipient monitoring checklist by March 31, 2017 and maintain a file of all monitoring activities conducted during the fiscal year.

Finding 2016-004: The Clerk of Court submitted her Statement of Economic Interests after the filing deadline of December 15, 2015. The Clerk of Court had initially prepared and executed the Statement of Economic Interests on December 14, 2015; however, she missed the mail run for that day and therefore, held onto the document to be delivered the next day. Although she came into work on the next morning of December 15, 2015, she became ill and immediately left work not realizing the document was still on her desk. When she returned to work on December 16, 2015, she read the reminder email from the Clerk of Council about the deadline for the

document and immediately delivered the Statement of Economic Interests to the Clerk of Council.

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 \$1.9 million. This increase in overall fund balance resulted primarily from actual revenues exceeding the budgeted amount.

Actual revenues were more than estimated revenues (excluding Appropriations from Fund Balance and Schools) by \$3.5 million, or approximately 1.08%. Actual expenditures were under appropriations (including Transfers and excluding Budget Savings) by \$11.2 million, or 3.3%.

During fiscal year 2016, the City's unassigned fund balance (formerly referred to as undesignated fund balance) increased by \$2.2 million to \$54.3 million. The unassigned fund balance represents 12.1% of actual revenues for the General and School Operating Funds which exceeds the 10% policy threshold by 2.1%. For the committed fund balance – budget savings program, we added approximately \$1.8 million from savings generated by departments during fiscal year 2016.

Revenues (in millions):

	FY16 Budget	FY16 Actual	FY16 Actual As a % of Budget	FY15 Actual As a % of Budget
General Property Taxes	\$ 157.1	\$ 158.5	100.8%	100.1%
Meal Tax	19.4	20.1	103.6%	103.0%
Sales & Use Taxes	15.1	15.4	102.0%	104.0%
Business License Tax	12.4	12.1	97.6%	98.4%
Communication Sales Tax	9.2	8.9	96.7%	99.4%
Lodging	3.5	3.6	102.9%	102.0%
Special Assessments	4.7	6.4	136.2%	86.7%
State/Federal Revenues	64.4	64.0	99.4%	97.9%
Other Revenues	37.6	37.9	100.8%	98.3%
Total:	<u>\$ 323.4</u>	<u>\$ 326.9</u>	101.1%	99.5%

(1) Excludes appropriations from fund balance

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

Some of the more significant favorable (actual exceeds budget) and unfavorable (actual is less than budget) variances in revenues for fiscal year 2016 are as follows:

	VARIANCE FAVORABLE (UNFAVORABLE)
SPECIAL ASSESSMENTS FOR THE COMMUNITY DEVELOPMENT AUTHORITIES: Actual revenues exceeded the budget primarily from the collection of delinquent taxes from previous years.	\$1.6M
REAL PROPERTY TAXES: Actual exceeded the budget because of supplemental assessments from new construction and abatements were less than anticipated.	\$.094M
MEAL TAXES: We continue to experience consistent growth in this tax as consumers see dining out as a social event/form of entertainment.	\$0.7M
SALES AND USE TAX: Consistent growth over the last four years.	\$0.3M
PUBLIC ASSISTANCE STATE/FEDERAL REVENUES: Revenues are a function of the level of expenditures and the federal reimbursement rate for various programs. Expenditures were less than budget; however, the reimbursement rate was greater than what was budgeted.	(\$0.5M)
FINES AND FORFEITURES: Decline in court fines is due to a decrease in court cases.	(\$0.5M)

Expenditures (in millions):

	FY16 <u>Appropriations</u>	FY16 <u>Actual Expenditures</u>	Favorable <u>Variance</u>
City Departments*	\$ 200.4	\$ 194.6	\$ (5.8)
Transfer to Schools	71.1	71.1	-
Transfer to Other Funds**	<u>64.7</u>	<u>59.3</u>	<u>(5.4)</u>
Total:	<u>\$ 336.2</u>	<u>\$ 325.0</u>	<u>\$ (11.2)</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, annual transfer to the Hamptons Golf Course 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:

	VARIANCE FAVORABLE (UNFAVORABLE)
HUMAN SERVICE APPROPRIATIONS THAT RELATE TO PUBLIC ASSISTANCE STATE/FEDERAL REVENUES	\$1.3M
TRANSFERS TO OTHER FUNDS: Projects in the Capital Projects Fund were at various stages of completion; most of this funding was re-appropriated in FY17 to complete the various projects (\$5.0M). Debt Service savings (\$126K) and CSA Match (\$229K)	\$5.4M
POSITION AND BENEFIT SAVINGS PRIMARILY FROM VACANT POSITIONS	\$2.2M

Hampton Roads Convention Center (HRCC)

The Convention Center's financial statements are presented on pages **35-40**. The Convention Center Fund is accounted for as an Enterprise Fund which functions similar to private for profit business units. The Convention Center Fund generated a change in net position of \$414,489 (previously referred to as "net income"). HRCC's attendance was lower in FY16 than FY15 and event days were 134 lower than budgeted due to the improvement in the quality of the events HRCC has been able to book, thus phasing out the numerous small events which generated very little in revenue. Due to the new commission agreement with John Q. Hammons Hotels, L.P., catering commissions were \$144K higher than FY15. On the expenditure side, a \$139.3K utilities savings was obtained due to decreased natural gas costs and increased efficiencies related to HVAC provider's usage monitoring, and upgrades to the HVAC system. Some of the FY16 events generating event-related income over \$50,000 included: Bodacious Bazaar & Art Festival, SGK Gun Shows, 2015 NekoCon, Hampton Roads Tattoo and Arts Festival and the 2016 Mid-Atlantic Quilt Festival.

Woodlands Golf Course

The Woodlands Golf Course's financial statements are presented on pages **133-135**. The Woodlands Golf Course is accounted for as an Enterprise Fund which functions similar to a for profit business unit. The Woodlands Golf Course generated net income of \$131,914. During fiscal year 2016, revenues increased by \$40,218 or 7% mainly due to more tournaments and less closures resulting from bad weather. Expenses decreased by \$193,920 from FY15. The majority of this decrease (\$155,659) is related to the reduction in the net pension liability for the Woodlands' employees covered under the retirement plans HERS and VRS. The decline in the net pension liability was due to the retirement of an employee covered under HERS. Commencing in fiscal year 2015, the accounting standards required state and local governments to record a net pension liability on the City's books for unfunded pension liabilities (total pension liability less the value of assets set aside in the pension plan to pay benefits).

Steam Plant

The Steam Plant's financial statements are presented on pages **133-135**. 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 \$815,792 in fiscal year 2016. The Steam Plant operated at full capacity for the entire fiscal year with no major breakdowns or repairs. Total operating revenues increased 8.2% while operating expenses decreased by 7.7% compared to fiscal year 2015.

Solid Waste

The Solid Waste's financial statements are presented on pages **133-135**. The Solid Waste Fund is accounted for as an Enterprise Fund which functions similar to private for profit business units. The Solid Waste Fund generated net income of \$2,563,315 in comparison to a net loss of \$1,352,089 in fiscal year 2015. The increase in net income is due primarily to the increase in Solid Waste user fees from \$4.25 per week to \$5.88 per week.

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.