

CITY OF NEWPORT NEWS, VIRGINIA

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2005

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City Of Newport News

Virginia 23607

March 1, 2006

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Office Of The City Manager

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

The Honorable City Council:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Newport News, Virginia (the City or Newport News) as of and for the fiscal year (FY) ended June 30, 2005. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

We experienced a delay in receiving the audited financial report of our component unit, Peninsula Airport Commission (PAC). The delay impacted final compilation and audit of the City's CAFR. Realizing the importance of timeliness to the quality of financial reporting, the City is working with PAC to see what changes can be made to better handle their workload.

Cherry, Bekaert & Holland, LLP, Certified Public Accountants, have issued an unqualified ("clean") opinion on the City of Newport News' financial statements for the year ended June 30, 2005. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The City of Newport News, incorporated in 1896, is centrally located on the eastern coast of Virginia. It currently occupies 69 square miles and serves a population of 185,240. Newport News is the fourth largest city by acreage and the fifth largest city by population in the Commonwealth of Virginia. Northrop Grumman Newport News is one of the largest maritime yards in the world, employing approximately 18,500 people.

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

The City of Newport News provides a full range of services, including police and fire protection, juvenile detention, adult correction, sanitation and human services, the construction and maintenance of highways, streets and infrastructure, recreational activities and cultural events. In addition to general government activities, the City

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provides street lighting, water and wastewater services to its citizens. The City's Public Utilities Department (Waterworks) also provides water to the cities of Hampton, Poquoson and parts of York and James City Counties. This report covers financial transactions of all services provided by the City. The City is also financially accountable for a legally separate school district which is reported separately within the financial statements. We have also included, as enterprise funds and/or component units, the Newport News Parking Authority, the Peninsula Airport Commission (PAC), the Economic/Industrial Development Authorities (E/IDA) because of City Council financial accountability or significant financial ties with the City.

Those independent agencies that we excluded are Newport News Redevelopment and Housing Authority, Office of Human Affairs, Hampton-Newport News Community Services Board, Peninsula Transportation Commission, Peninsula Ports Authority of Virginia and Virginia Peninsula Economic Development Council.

The Council is required to adopt a final budget no later than the fifteenth day of the last month of the fiscal year. This annual budget serves as the foundation for the City's financial planning and control. The budget is prepared by fund, function (e.g., public safety), and department (e.g., police).

Local economy

Newport News is centrally located to serve Eastern Virginia and the East Coast, with convenient access to both the industrial Midwest and the growing southeast Sunbelt. Newport News is part of the Hampton Roads Metropolitan Statistical Area (MSA), the 31st largest market in the U.S. and the largest between Washington and Atlanta. The City's location on the world's greatest natural harbor provides a window of opportunity onto the international marketplace. The City has a diverse economic base with manufacturing, retail, services, distribution and one of the world's major shipbuilding centers, Northrop Grumman Newport News.

Northrop Grumman Newport News, the City's largest employer, continues to remain strong, employing approximately 18,500 white collar and production workers. During FY 2005, the company announced capital investments of almost \$65 million. These investments include the construction of a new training facility at the northern end of the Downtown. This is the continuation of a multi-year capital upgrade in preparation for building the new generation of nuclear aircraft carrier.

During FY 2005 national unemployment decreased from 5.8% to 5.2%, while the City's unemployment rate decreased from 5.2% to 4.8%.

Since the early 1990's, the number of national defense sector jobs in Newport News has declined. While this decline has stabilized, the future threat remains that Navy shipbuilding decisions and/or future BRAC decisions could significantly impact employment at Northrop Grumman Newport News and Ft. Eustis—the City's two largest employers. Overall defense spending also affects the region's economy and, thus, the health of the City's local economic sector. Beyond defense, the federal government's funding and priorities for the Department of Energy and for NASA directly affect the number of high-paying jobs located at Jefferson lab and NASA Langley Research Center. Though located in Hampton, because of NASA Langley's importance for the entire region the City has a vital stake in its future viability.

The City is now more than 95% developed, with most of the built environment oriented around automobile-dependent forms of development. The new urbanism movement seeks to recreate more pedestrian-friendly neighborhoods and the city has been fortunate to have caught this new trend in a timely fashion, with such projects as City Center at Oyster Point, Port Warwick and Asheton all incorporating the principles of new urbanism. Recreating the City in this mode

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will be increasingly important for enhancing the City's quality of life and, thus, making it globally competitive to attract and retain a skilled, educated and creative labor force to support continued economic development.

During FY 2005, positive steps were taken toward business retention and expansion, business attraction and community development--goals that serve to enhance Newport News' tax and job base. The City's economic development focus during this past fiscal year has been on the traditional Downtown, the Southeast Community, the Newmarket/Brentwood area, the Greater Hilton area, Oyster Point of Newport News, Denbigh, Oakland Industrial Park and the Greater Lee Hall area. Significant economic development also occurred along the City's "Cultural Corridor" and in the Patrick Henry Retail District.

During the past ten years, the government's expenses related to public safety have increased not only in amount, but also as a percentage of total expenses (a ten-year increase of \$34.1 million or 58.5 %). In the case of public safety, much of the increase reflects a regional trend that has seen the salaries and benefits of police and firefighters growing at a much faster rate than those of other categories of public-sector employees.

Long-term financial planning

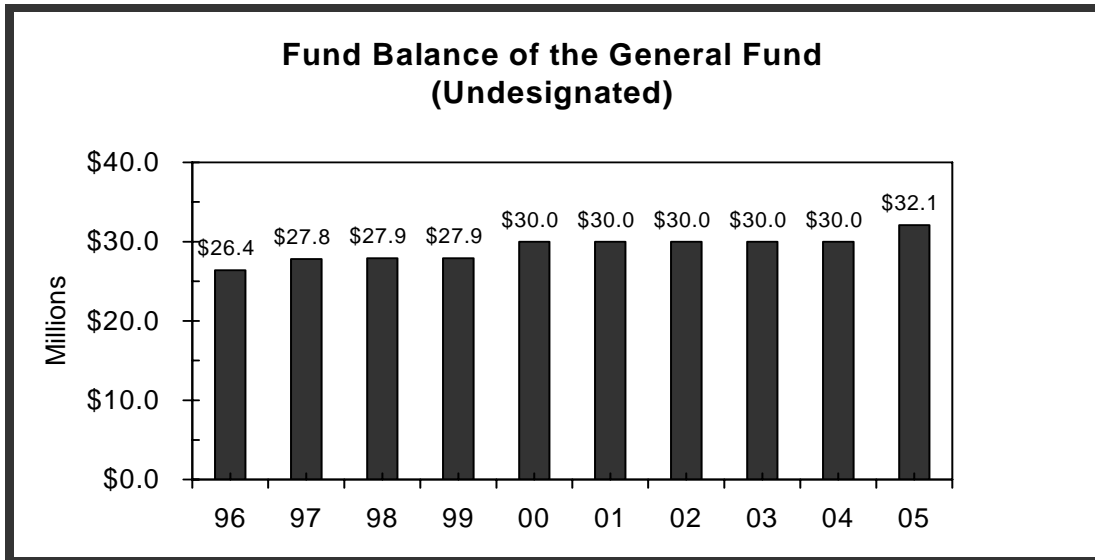
The City develops a new multi-year Capital Improvements Plan annually that is separate from the Annual Operating Budget. The Capital Improvements Plan is not a commitment of funds, a budget, nor an appropriation of funds. The Capital Improvements Plan is a multi-year plan of expenditures, developed within the context of its impact on the operating budget. Generally, most projects are funded by General Obligation Bonds (GOB) issued by the City. The bonds are usually repaid over twenty years, and the annual payment on those bonds is called "debt service." Debt service is budgeted for and paid out of the City's annual operating budget. FY 2006 calls for total General Fund supported funding of \$29.3 million.

On June 30, 2005, the City's total authorized indebtedness, subject to limitation, was approximately \$439.5 million. The limit of indebtedness is established by the City Charter at 10% of the total assessed value of real estate, or approximately \$925 million. An additional \$10 million in water bonds, authorized by voter referendum, can be issued. The margin for additional borrowing was approximately \$522 million at June 30, 2005.

The City has a self-imposed policy to limit annual debt service cost to 9.5% of annual revenues, less Public Utilities. The current actual percentage is 8%. The City's credit ratings for general obligation bond issues have remained very good: Aa2 by Moody's and Aa by Standard and Poor's rating services.

The General Fund fund balance is an important element in the financial position of the City. The fund balance is divided into reserved and unreserved portions, and the unreserved fund balance is subdivided into designated and undesignated portions. Reserved fund balance is used to reserve assets that are not available for current spending, and designated fund balance represents planned uses of current resources. Fund balance is a positive factor when the rating agencies consider bond ratings for the City. At the end of the year, \$61 million has been set aside in various reserves and other designations.

The undesignated General Fund fund balance, which represents available current financial resources, totaled \$32.1 million at June 30, 2005. Uses of the undesignated fund balance are carefully evaluated to ensure that the balance will be sufficient for future needs. A healthy undesignated fund balance allows the City to provide adequate services for the citizens, plan for future projects, and retain its sound financial position. City Council established a goal of maintaining an undesignated fund balance not less than 5% of actual general fund revenues for the year. The goal was reached in FY92, and with the undesignated General Fund fund balance at \$32.1 million, the City continues to enjoy a comfortable fund balance position.



Real estate property tax revenues continue to be the staple of the City’s funding sources. Dependence on strong growth must be cautiously guarded as state and federal revenues continue to make up a smaller percentage of the City’s revenue. On the expense side, we expect continuing increases in the cost of health care and pension contributions.

The City continues to guarantee the payment of principal and interest for the Peninsula Airport Commission Airport bonds, Series 2001, whose outstanding balance totaled \$6.0 million at June 30, 2005. Additional information regarding the City’s debt outstanding and debt administration is provided in the notes to the financial statements and the statistical section contained in this report.

Major Initiatives

During the year, the City made substantial progress toward finalization of a Development Agreement and Master Development Plan, which will govern the development of the 400+/- acres and establish accountability by both parties to maintain the commitment and vision over the ten-year development period. The project objective is to create a legacy community that offers more choices of high-quality housing products, establishes a balanced plan with lifestyle choices and values the City’s historical assets while preserving and protecting the sensitive water and environmental resources.

In FY 2005 Newport News Town Center, LLC (NNTC) began construction of 205,000 square feet of retail and office space in the Phase Two section of City Center. Also included in the new Phase Two construction is an 85,000-square-foot office building, One City Center. Simultaneously, the NNEDA is constructing an 885-car parking garage along Thimble Shoals Boulevard to support the retail shopping and office development. The parking garage will have ground-level retail shops along Mariner’s Row, a pedestrian plaza that will link the Phase Two City Center buildings. The City is reconstructing Thimble Shoals Boulevard as an attractive, pedestrian friendly urban boulevard and installing new entrance signage at the intersection of Thimble Shoals Boulevard and Jefferson Avenue.

Side by side with the Phase Two City Center construction, a 256-room Marriott Hotel and 70,000-square-foot conference center is expected to open by June 15, 2006. The 11-story structure includes rooms with wireless Internet

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access and a T-1 line for high-speed access. Also being marketed are up to 75 condominiums that could be built along side the hotel above the conference center. Additionally, more than 50 high-end condominiums are being marketed by NNTC as part of a continuation of the Phase Two City Center development.

The first block of the Park Place luxury apartments has been completed and leased, and leasing and occupancy of the second block has also taken place. Construction of the remaining third, fourth and fifth apartment blocks began in FY 2005 and will be completed in FY 2006. The Red Star Tavern, an upscale restaurant and pub between Fountain Plaza One and Fountain Plaza Three began and will be completed in FY 2006.

In the Southeast Community, planning for the development of the Southeast Commerce Center along Terminal Avenue has continued. The NNRHA is expected to complete acquisition and demolition in this 16-acre area in FY 2006. The Southeast Commerce Center has been identified as a target Brownfields area. Level one environmental assessments took place and the process of conducting level two environmental assessments was begun. The City's goal is to attract industrial and commercial businesses that can take advantage of the Commerce Center's Virginia Enterprise Zone and federal HUBZone location. The Department of Development is marketing a 5-acre retail parcel located at the corner of Marshall Avenue and 39th Street to attract a grocery store to the community. Additionally, in the City's Seafood Industrial Park, Chesapeake Bay Packing is undertaking a major expansion, adding 8,750 square feet to its existing plant and investing more than \$1.2 million in the expansion.

The construction of a new Police headquarters building will begin in FY2006 with cost projection of \$22 million, which is being funded with City bonds. Besides providing a home for the Police headquarters, this project advances the City's redevelopment and beautification goals in its Mid-City Enterprise Zone. Elsewhere in this neighborhood, Riverside Healthcare made more than \$1.3 million in investments in renovating the Brentwood Shopping Center for medical and training offices.

In the Greater Hilton Area, the City's Industrial Development Authority (NNIDA) renegotiated its lease with United Parcel Service (UPS) and refinanced its debt on the building occupied by the UPS customer service center. The NNIDA's refinancing prompted UPS to convert its operating lease to a capital lease, thus eliminating the NNIDA's end-of-term risk. UPS has since added 80 new jobs at the customer service center.

The City continues to work with the U.S. Government Services Administration on the siting of a new federal district courthouse on land owned by the City near City Hall.

Other Initiatives and Accomplishments

Adult Corrections – During FY 2005, the department installed cold storage units which provide storage space for approximately thirty days' supply of food if needed during potential emergencies. In addition, backup emergency generators were installed which provide full operational capabilities for the Dining Hall, Jail Housing Area, Gymnasium, and Pumping Station. New fencing and mechanical entrance gate to the facility were also installed with voice and visual capabilities at the entrance to limit and control after hours and weekend access to the facility.

Commissioner of the Revenue - The Personal Property, Related Tax and Business License sections, the department will outsource the printing and mailing of returns for 2006. This new venture will improve customer service and office efficiency. The Virginia Department of Taxation is transitioning from its outdated accounting system to a new system called Integrated Revenue Management System (IRMS). IRMS will be implemented in August 2005 and will be used for taxpayer assistance in checking on the status of returns, processing accelerated state tax refunds researching assessments and payments.

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Court Services – Work continues with the Annie E. Casey Foundation to reduce reliance on secure detention for youthful offenders. Consequently, the average daily population in detention has been reduced without compromising public safety. The department is participating in gang initiatives on the state and local level.

Development - The Department is responsible for a full range of economic and industrial development activities undertaken by the City. In addition to the initiatives discussed on page iv, during FY2005, the department:

- Coordinated with the City Manager's Office and other City departments to negotiate and finance the purchase of the CSB Building (2501 Washington Avenue) to be used for offices by the City and other public sector agencies.
- Leased two commercial units in the Downtown Engineering Center; renegotiated a lease between the Industrial Development Authority of the City of Newport News (NNIDA) and United Parcel Service (UPS); subleased the vacant MCI Building to Ferguson Enterprises; leased, through a capital lease, a 64,000 square-foot industrial building to Kitchen Design for the expansion of its manufacturing operation.

Emergency Management – The following projects/initiatives were in process or completed during FY 2005:

- In October 2004, the Peninsula Hazard Mitigation Planning Committee (PHMPC) was awarded a \$126,000 grant to develop a Regional Natural Hazard Mitigation Plan. Newport News was selected to serve as the grant manager. The Committee includes the cities of: Hampton, Newport News and Williamsburg; the counties of: James City and York.
- National Incident Management System (NIMS) Implementation – City personnel have completed NIMS training, and first responders are in the process of completing Basic to Advanced Incident Command. In July 2005, City Council adopted a resolution formally recognizing NIMS.
- Emergency Notification System - The Office of Emergency Management is currently working to upgrade the Dialogic Communicator, Emergency Notification System, from a ten phone line system used to notify City EOC emergency support staff only, to one possessing access to 100 phone lines, off-site system backups, and off-site use of hundreds of phone lines. The system will be used to notify all City employees and Newport News citizens of pending or active emergencies or disasters and provide critical emergency information. The system upgrade is made possible through the 2004 Homeland Security Grant Program at a cost of \$132,000, and should be fully operational by December 31, 2005.

Engineering - Major initiatives for FY 2005 include the following:

- In conjunction with the Department of Public Works, the program involving the replacement of radio monitoring units at sewage pumping stations continues. The units transmit reports to a centralized location at the Operations Center, providing real-time information to support operational and maintenance activities related to the pump station network. Approximately \$3.2 million sanitary sewer rehabilitation projects were programmed for FY2005.
- The Commonwealth Transportation Board approved \$50 million in matching funds for localities to improve their roads and bridges. These funds were made available under the Virginia Department of Transportation's (VDOT) Revenue Sharing Program. VDOT awarded the City \$744,920 for the Deep Creek Road widening project.

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- During FY2005, the Transportation Division, in conjunction with VDOT, continued the Citywide Signal Retiming Program using Congestion Mitigation and Air Quality (CMAQ) funding. Yearly grant funding for the program is \$185,000 utilizing 100 % Federal funds. There are approximately 250 traffic signals in the City and the department retimes traffic signals on a three-year cycle. This year 91 signals were retimed.
- The department has been working with the Mayors Committee for Disabilities to eliminate trouble spots throughout the City where there is little or no handicap accessibility. Approximately, \$109,000 was spent to install ramps and sidewalks in the Huntington Heights area.

Fire – The following projects and initiatives were in process or completed during FY 2005:

- The department received 191 complete self-contained breathing apparatus (SCBA) units, 400 face pieces and other associated equipment. The upgrade increases the time a firefighter can operate in a toxic environment from 30 to 45 minutes. The SCBA units now meet the Occupational Safety and Health Administration's criteria to protect the fire fighter's from chemicals released during a terrorist attack.
- The department received \$225,200 from the Department of Homeland Security Assistance to Firefighter's Grant for the installation of Plymovent Diesel Exhaust Extraction equipment into seven of our fire stations and an ambient air filtration system into an eighth. Additionally, the grant funded the modification of all fire and EMS response vehicle exhaust piping. The equipment will significantly improve the fire station working environment by eliminating the harmful effects associated with diesel emissions.
- The department completed contract negotiations to outsource the Emergency Medical Service billing for EMS transport service to include follow-up billing and claim disputes. This initiative is projected to improve the collection of revenue generated by EMS Bureau.
- During the past year the department has completed a total reorganization of its Maritime Incident Response Team (MIRT) capability. The department is equipped with two fireboats and 3 inflatable zodiac boats which provide the department with various response options when dealing with water related incidents. The large 45 ft. fireboat can provide the pumping capacity greater than two fire engines along with supporting dive operations. The smaller 24 ft. fireboat is used for quick response calls. The three inflatable Zodiac boats and trailers are used to support dive operations in lakes and ponds and water rescue operations due to flooding conditions in the city. The department also developed and built a Special Emergency Response Vehicle (SERV) and placed it in service. This unit provides the department with the ability to evacuate citizens from high water emergencies.

Juvenile Services – The following initiatives were in process or completed during FY 2005:

- The department moved into the new 110-bed detention facility on January 9, 2005 allowing the department to operate in a more cost effective and efficient manner.
- The replacement of the mainframe Juvenile Tracking System with a state-of-the-art windows-based system has enhanced the department's ability to generate reports, and to conduct trend analysis required for grant applications. This system, referred to as HYPE (Helping Young People Excel), was instrumental in securing over \$750,000 in funding and awaiting the status of a \$1.5 million grant by September 2005.
- The department continues to participate in the Virginia Department of Juvenile Justice, Juvenile Detention Alternative Initiative (JDAI), in partnership with the Annie E. Casey Foundation. JDAI is designed to assist

jurisdictions in implementing more effective and efficient systems, and best practices and methods to reduce the number of children unnecessarily or inappropriately detained. In addition, the initiative enhances case processing and decreases the disproportionate minority contacts. As a result of the initiative, the Newport News detention population drastically decreased from an average daily population of 99 to 45.

Libraries and Information Services - During FY 2005, the Newport News Public Library System (NNPLS) circulated more than 625,000 materials and answered more than 110,000 reference questions. During the last fiscal year more than 808,000 citizens entered the public libraries to check out materials, attend a program or use the research materials. Patrons used the electronic resources more than 563,000 times; and library customers used the Library System's electronic databases more than 15,000 times. During FY 2005 there were over 104,700 registered users of the Newport News Public Library System. The store carries used books, CDs, mugs, movies, books on tape and a few videos. Proceeds from the sales in the bookstore help fund programs and equipment at the libraries.

Parks and Recreation – The following are initiatives and accomplishments during FY 2005:

- The Midtown Community Center added an outside playground to the facility. The playground is handicap accessible and has sections designed for children 3 - 5 and 6 - 11 years old. The surfacing is rubberized poured-in-place and allows easy access to wheel chair participants to all areas. The playground is surrounded by a fence to ensure the safety of all users.
- The department developed and implemented the Fit-Natics Fitness Program at Doris Miller Community Center for mature adults. The program includes a fitness trainer, equipment, and individualized programs for each participant.
- The department promoted and implemented the Active Aging initiative through programs focusing on the six components of positive lifestyle choices. The Active Aging initiative is a national program sponsored by the Administration on Aging and the International Council on Active Aging.

Planning – The following projects and initiatives were in process or completed during FY 2005:

- The department completed the Chesapeake Bay Preservation Act Ordinance revisions, the Dr. Martin Luther King, Jr. Memorial Committee conceptual design (Dr. Martin Luther King, Jr. Plaza), the Mariners' Museum Multi-Purpose Trail design, the Peninsula Light Rail Minimal Operable Segment (MOS) and the adaptive reuse of the former Walter Reed School into the Downing Gross Cultural Arts Center .
- City planning projects underway during the year included continued effort for the following projects: the urban waterfront plan for the Southeast Community, the Southeast Community Plan, the TEAM 2030 Regional Transportation Plan, the Stoney Run Greenway Corridor Plan implementation phase, the Rivermont Streetscape Enhancement Project, the Ft. Eustis Second Access Road, the Lee Hall Train Station, the Greater Lee Hall development proposal, the Lee Hall historic district and Greater Lee Hall overlay district proposal, the Downing Gross Cultural Arts Building Phase II (second floor), the City Wayfinding Sign Plan, the Denbigh/Warwick Town Center (Newport Crossing) study, Warwick Boulevard landscape project, draft revisions to the City's Sign Ordinance, and the City Center at Oyster Point project activities.

Police – The following projects and initiatives were in process or completed during FY 2005:

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- With funds received from a combination of three Homeland Security Grants, the Police Department was able to complete an Alternate Dispatch Center, purchase a new boat for Marine Patrol, purchase additional portable radios and accessories, complete the purchase of personnel protective equipment for all sworn personnel, purchase a new paging system and purchase ruggedized laptop computers.
- Effective December 2004, the Police Department was reorganized to enable the department to better respond to crime fighting efforts in the City. Organizational structures, programs, policies, and personnel deployment all revolve around the primary focus of fighting crime.
- During FY 2005, the local media printed lists of individuals with outstanding warrants. The purpose of the list is to obtain citizens assistance in identifying the location of wanted persons.
- A Crime Response Team (CRT) was formed to enhance crime fighting capabilities. The primary mission of CRT is to aggressively pursue armed offenders who are committing violent acts in the City.

Public Utilities (Waterworks) – The following are major initiatives and accomplishments for FY 2005:

- Securing Future Water Supply - Since 1987 the City of Newport News, in partnership with other Virginia Peninsula localities, has been working to develop and implement a long-term water supply plan including more aggressive water supply conservation, maximizing the use of available groundwater and constructing a 12 billion gallon off-stream reservoir and Mattaponi River pumping station in King William County. During FY 2005, Waterworks continued its work to bring the King William Reservoir Project to the point where a federal permit could be issued. During early FY 2005 a critical permit was obtained from the Virginia Marine Resources Commission. This State permit authorizes construction and operation of a water intake structure in the Mattaponi River. Also during FY 2005, the State issued a statement indicating the project is in conformance with its Coastal Resources Management Program, a requirement for the needed federal permit. A decision on the final permit is expected in early FY 2006.
- Lee Hall Water Treatment Plant – At the end of FY 2005, construction of a modern state-of-the-art treatment facility at Lee Hall was 98% complete and scheduled for completion in the fall of 2005. Once finished, the Lee Hall plant will be capable of meeting water treatment requirements necessitated by changes in drinking water regulations and should be able to operate for the next 50 years or more.
- Security Enhancements – During FY 2005, Waterworks completed its Environmental Protection Agency (EPA) Vulnerability Assessment and related Emergency Response Plan to provide certification to EPA as required by the Bioterrorism Act. Waterworks has improved control of facility and site access through guards, video surveillance, perimeter fencing and improved lighting. Perimeter security will be further improved along with other infrastructure physical protection systems as budget allows. In addition, Waterworks interfaces with interdependent utilities to respond to emergency events of all kinds.
- RENEWS Project - Waterworks has initiated a project for “Replacing Existing Newport News Waterworks Systems” (RENEWS). The RENEWS project will allow the department to move to newer technology and increase its customer offerings. The first system to be replaced is the Customer Information System (CIS). This system includes customer care, account management, billing, service orders and meter inventory management. Waterworks plans to begin implementation of the CIS Project in the fall of 2005.

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Public Works – The following are major initiatives and accomplishments for FY 2005:

- In September 2004, the CityWorks Call Center & Service Request systems were implemented in the offices of the City Manager, Mayor and City Clerk, the Departments of Management & Legislative Services, Intergovernmental & Community Relations, Engineering and Codes Compliance.
- Environmental improvements to ten buildings continue to provide substantial savings to the City in energy costs. Energy savings as a result of cost avoidance for year seven of the Honeywell contract was \$575,308. The cumulative energy cost avoidance through the end of year seven is \$4,221,876, as compared to the cumulative energy guarantee per the contract of \$2,569,644.
- The Compost Facility at the closed Denbigh Landfill accepted 105,125 cubic yards of tree debris and yard waste for processing. The compost facility marketed 24,000 cubic yards of mulch, compost, and soil/compost blend, with sales of approximately \$204,000. Processing costs have averaged \$14.73 per ton. Compared to the average landfill disposal cost of \$26.31 per ton, the Solid Waste Division realized \$14.73 per ton in cost avoidance of Bethel Landfill tipping fees. Factoring in revenue from sale of the product, the City realized a cost avoidance of \$17.98 per ton, for a net cost of \$8.33 per ton.

Self Insurance - The Office implemented a plan to install and make operational Automated External Defibrillators (AED) in City facilities throughout the length of Newport News. Once written programs were approved by the Health Department, 14 of these lifesaving units were installed and plans are to acquire six (6) more units in the near future. More than 300 City employees representing 16 departments have received training on the AED as First Responders.

Sheriff's Office – The following are major initiatives and accomplishments for FY 2005.

- As a partner in the Newport News TRIAD Chapter, the sheriff's office has expanded the TRIAD effort in 2005 with the Yellow Dot Medical Alert Program for seniors. Vehicles operated by seniors are equipped with medical alert stickers and medical history, which may be vital to emergency personnel responding in the event of an emergency.
- In conjunction with the Virginia Department of Corrections, the Virginia Serious and Violent Offenders Re-entry Initiative (VASAVOR) program was implemented at the Newport News City Jail in 2005. This is an offender re-entry initiative intended for inmates who have a parole plan for Newport News. Prior to release, inmates will be monitored by a transition team consisting of an on-site case manager, jail classification personnel, probation and parole staff and Community Service Board members. The program is designed to counsel and help prepare inmates, and provide assistance in gaining employment and housing upon release.

Office on Youth Development (OYD) - In support of the City's Strategic Plan for Youth, the work of the OYD focused on the following major initiatives:

- The OYD staff has been instrumental in establishing and facilitating the development of this community-wide initiative to insure violence-free environments for children at home, in schools, and in neighborhoods. A team of city department and community agency representatives are developing a plan of action to prevent and reduce violence and its impact on children and youth.

The Honorable City Council
City of Newport News
March 1, 2006

- The OYD staff supported the activities of the Commission on Youth to include the creation of the Asset Builder's Award to recognize youth, adults, businesses, and community organizations that actively work to build assets in young people. The Commission also completed a survey of over 600 high school students to assess their transportation needs and utilization of public transportation. Survey results will be submitted to City Council for their review.
- In October 2004, City Council approved a recommendation from the Mayor's Youth Commission for the appointment of two youth members to three city commissions. Two high school aged young people will now serve on the Human Rights Commission, the Arts Commission, and the Library Board of Trustees.

Awards

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Newport News for its comprehensive annual financial report (CAFR) for the year ended June 30, 2004. This was the 26th consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated July 1, 2004. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including as a policy document, a financial, plan, an operations guide, and a communications device.

Recognitions

- The Commonwealth of Virginia Department of Historic Resources Board of Historic Resources designated West Avenue Library, which opened in 1929, as an historic site. West Avenue Library is now eligible for listing in the National Register for Historic Places.
- The Virginia Public Library Directors' Association recognized Newport News Public Library System (NNPLS) for Outstanding Publicity for *The '60s: A Decade of Change @ your library*TM and also recognized NNPLS for Outstanding Adult Program for the opening reception for *Explore Your Community Roots @ your library*TM.
- Midtown Community Center and Doris Miller Community Center were designated "Age-Friendly Facilities" by the International Council on Active Aging.
- The Newport News Police Department was recognized as a "Meritorious Agency" which is granted to agencies with 5 or more continuous accreditations. In addition, the department was deemed a "Flagship Agency", a national honor for continued excellence in maintaining accreditation at a heightened excellence.
- Newport News Park, with more than 8,000 acres, is the largest municipal park east of the Mississippi.

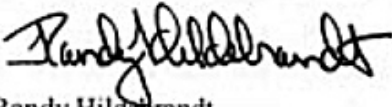
The Honorable City Council
City of Newport News
March 1, 2006

- Deer Run, the city's public golf course, has been rated as "Best Value" by Golf Digest.

Acknowledgments

The preparation of this report could not be accomplished without the dedicated services of the entire staff of the Department of Finance. We would like to express our appreciation to all members of this Department, and to the many other City departments and agencies which have contributed to the completion of this report. We also acknowledge the members of City Council for their leadership, guidance, and establishment of policies for managing financial operations in a sound and progressive manner.

Respectfully submitted,



Randy Hildebrandt
City Manager



LaVerne Lovett
Director of Finance

CITY OF NEWPORT NEWS, VIRGINIA

City Government Officials

Year Ended June 30, 2005

City Council

Joe Frank	Mayor
Charles C. Allen	Vice Mayor
Herbert H. Bateman, Jr.	Member
William F. Haskins, Jr.	Member
A. Madeline McMillan	Member
Sharon P. Scott	Member
Joseph C. Whitaker	Member

Office of the City Manager

Edgar E. Maroney	City Manager
Randy W. Hildebrandt *	Assistant City Manager
William P. Mitchell, Jr.	Assistant City Manager
Neil A. Morgan	Assistant City Manager

Department of Finance

LaVerne Lovett	Director of Finance
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Other Officials

Marty Eubank	City Treasurer
Charles D. Crowson, Jr.	Commissioner of the Revenue
Joseph C. Street	Real Estate Assessor
John Hartman	Director of Budget and Evaluation
Cathy S. Matthews	Director of Internal Audit

*Assumed City Manager position on February 1, 2006.

CITY COUNCIL

CITY MANAGER

**CHIEF OF STAFF
(Executive Staff)**

- City Manager Support
- City Council Relations
- Legislative Services
- Interdepartmental Collaboration

**ASSISTANT TO CITY MANAGER
Administration
(Executive Staff)**

**ASSISTANT TO CITY MANAGER
Community Relations & Communications
(Executive Staff)**

**DIRECTOR OF BUDGET
AND EVALUATION**

**INTERNAL
AUDIT**

**DIRECTOR OF
PUBLIC UTILITIES**

**ASSISTANT CITY MANAGER
Financial/Administrative Support
(Executive Staff)**

- Info Technology
- Finance
- Human Resources
- Purchasing
- Vehicle & Equipment Services
- Real Estate Assessment
- Administrator - Self Insurance

Liaison with:
City Treasurer
Commissioner of the Revenue

**ASSISTANT CITY MANAGER
Public Safety/Operations
(Executive Staff)**

- Police
- Emergency Management
- Fire
- Public Works
- Engineering
- Parks, Recreation & Tourism
- Adult Corrections
- Planning
- Codes Compliance

Liaison with:
Sheriff
Courts
Commonwealth's Attorney

**ASSISTANT CITY MANAGER
Human Development &
Organizational Development
(Executive Staff)**

- Human Services/
Social Services
- Juvenile Services
- Youth Development
- Libraries &
Information Services

Liaison with:
Newport News Public Schools
Health
Community Services Board
Court Services

**DIRECTOR OF
DEVELOPMENT**

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Newport News,
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Zjelke

President

Jeffrey R. Emery

Executive Director