

CITY OF NEWPORT NEWS, VIRGINIA

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2006

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City Government Officials

Year Ended June 30, 2006

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

Randy W. Hildebrandt City Manager
Allen K. Archer Assistant City Manager
William P. Mitchell, Jr. Assistant City Manager
Neil A. Morgan Assistant City Manager

Department of Finance

LaVerne Lovett Director of Finance

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



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, 2006. 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.

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, 2006. 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. The MD&A complements 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 186,000. Newport News is the fourth largest city by acreage and the fifth largest city by population in the Commonwealth of Virginia.

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 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,

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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 more than 18,750 white collar and production workers. During FY 2006, the company announced capital investments of \$18.4 million, continuing a multi-year capital upgrade.

The national defense sector readjustment that began after the end of the Cold War is substantially complete and employment in this sector has stabilized. The last scheduled Base Closure and Realignment Commission (BRAC) decisions have been made without the Northrop Grumman Newport News and Ft. Eustis—the City's two largest employers—having experienced any significant net dislocations. Nor, has the Hampton Roads region experienced any severe impacts. While Fort Monroe in neighboring Hampton will be closed by 2011, most of these jobs are being transferred to Fort Eustis. The federal government's funding and priorities for the Department of Energy and for NASA, which directly affect the number of high-paying jobs located at Jefferson Lab and NASA Langley Research Center, have also stabilized, at least for the near term. Though located in Hampton, because of NASA Langley's importance for the entire region, the City has a vital stake in its future viability.

During FY 2006 national unemployment decreased from 5.2% to 4.8%, while the City's unemployment rate decreased from 4.8% to 4.3%. The City's decrease follows national trends. As the economic recovery matures, business hiring increases. An unemployment rate below 5% is considered to be full employment by many economists.

The City is now more than 93% 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, Asheton and Patrick Henry Place all incorporating the principles of new urbanism. Recreating the City in this mode 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

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creative labor force to support continued economic development.

Long-term financial planning

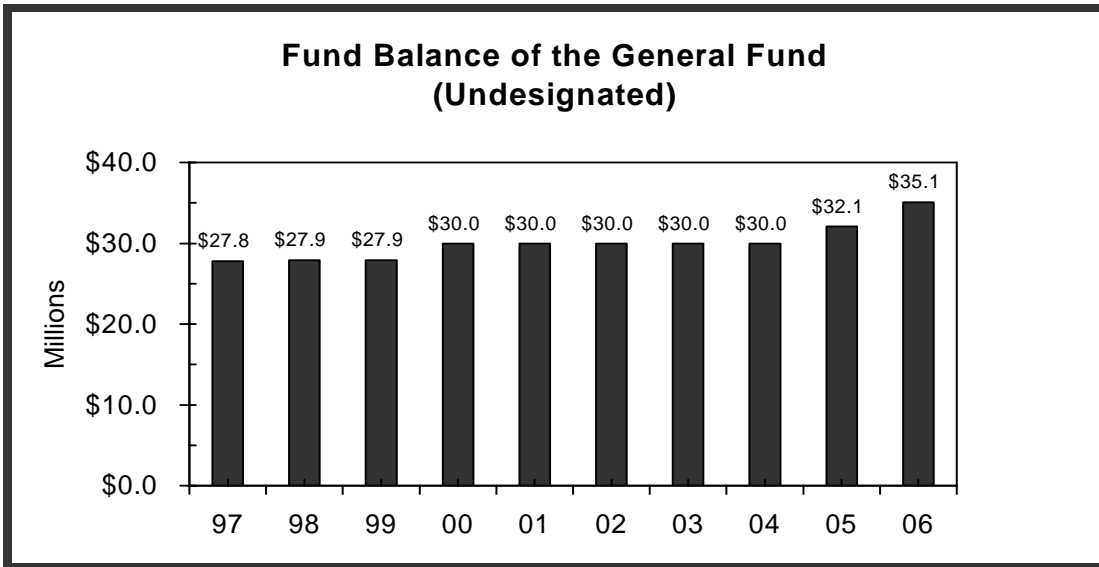
The City develops a new multi-year Capital Improvements Plan annually that is separate from the Annual Operating Budget. The Capital Improvements Plan is not a commitment of funds, a budget, or an appropriation of funds. The Capital Improvements Plan is a multi-year plan of expenditures, developed within 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 2007 calls for total General Fund supported funding of \$33.2 million.

On June 30, 2006, the City’s total authorized indebtedness, subject to limitation, was approximately \$446.3 million. The limit of indebtedness is established by the City Charter at 10% of the total assessed value of real estate, or approximately \$1.1 billion. An additional \$34 million in water bonds, authorized by voter referendum, can be issued. The margin for additional borrowing was approximately \$650 million at June 30, 2006.

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 8.5%. 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, \$63 million has been set aside in various reserves and other designations.

The City’s commitment to improving its financial condition is exhibited in its year-end results. General Fund revenues exceeded expenditures, including other financing sources during FY 2006 by \$7.1 million. The undesignated General Fund fund balance, which represents available current financial resources, totaled \$35.1 million at June 30, 2006 and remained at the same percentage of revenues (9.42%) as the prior year. 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 the undesignated General Fund fund balance as a percentage of revenues continues to exceed our policy threshold of 5%.



Real estate property tax revenues continue to be the staple of the City’s funding sources. Overall, the real estate tax base growth has averaged 13.21% annually for the past five years, including a substantial 19.32% increase in 2006—reflecting the recent appreciation increases in the market value of real estate. The significant increase resulted in City Council lowering the tax rate from \$1.24 to \$1.20/\$100 of assessed value for FY 2007.

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 \$5.8 million at June 30, 2006. 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 FY 2006, 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. These included the attraction of Wolseley North America’s operational headquarters to Newport News. Wolseley NA is a \$14 billion company and is parent to Ferguson Enterprises. The new headquarters campus will be located next to Ferguson’s existing headquarters buildings.

During FY 2006, the City finalized a Development Agreement, which will govern the development of Asheton, 400+/- acres of a “legacy community” in the Greater Lee Hall Area of the City. The City acquired the property for the relocation of the Hilton Fire Station (#3) to the Brentwood area on Jefferson Ave. for \$700,000. In addition, the City sold 0.93 acres of a City-owned parking lot, near City Hall, for the construction of a new federal courthouse.

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The Department of Engineering, in coordination with the Virginia Department of Transportation, completed a Citywide Signal System Upgrade Feasibility Study and an Intelligent Transportation System Master Plan, which will be incorporated into the City's "Framework for the Future" as part of the long-range transportation plan. The Master Plan is the first phase to develop a citywide signal system, which is estimated to cost \$12.5 million, funded through State and Federal grants.

Other Initiatives and Accomplishments

Adult Corrections – The department began utilizing the weekender inmates to assist with the mission of keeping the city streets and highways mowed and clean of litter. The weekender crews now cut and remove litter from the smaller areas of the city where vehicle traffic and weekday parking limit the ability to rapidly cut and maintain the entire city in timely manner.

Court Services – A fourth judge for the Juvenile and Domestic Relations District Court was approved and funded effective July 1, 2006. The additional judge should not only increase the number of cases heard, but also decrease the time between hearings.

Development - The Department is responsible for a full range of economic and industrial development activities undertaken by the City. In addition to the Wolseley project discussed on page iv, major initiatives by the department and/or the Economic/Industrial Development Authority (NNEDA/NNIDA) during FY 2006 include the following:

- Coordinated the sale of a 64,000 square-foot industrial building owned by the NNIDA in Oakland Industrial Park to Kitchen Design.
- Coordinated the purchase of the Rouse Tower Building by the NNEDA to allow for future expansion by the Department of Social Services;
- Oversaw and coordinated the construction of two parking garages and the Marriott Conference Center at City Center at Oyster Point.

Emergency Management – The following projects/initiatives were in process or completed during FY 2006:

- The Office of Emergency Management upgraded 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 98 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.

Engineering - Major initiatives for FY 2006 include the following:

- The Department established an Internet site where citizens can view maps, parcel property lines, aerial photography and zoning information.

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- The Department substantially completed the redelimitation of the City's flood zones as part of a grant received from the Federal Emergency Management Agency (FEMA) in the amount of \$125,000. This redelimitation project enhances the City's ability to plan and respond to natural disasters.
- During FY 2006, the Department applied for several Congestion Mitigation and Air Quality (CMAQ) grants and Highway Rail Grade Crossing Safety grants to supplement the City's Capital Improvement Program. State and Federal funds totaling \$9,072,000 were awarded to the City.
- The City of Newport News has over 250 intersections. Incandescent bulbs with an annual energy cost of approximately \$150,000 illuminate the traffic signals at these intersections. During FY 2006, the City began converting its traffic signals from incandescent bulbs to light emitting diodes (LEDs), which are significantly more energy efficient. This project will take two (2) additional years to complete and will result in energy savings of approximately \$100,000 annually.
- During FY 2006, the Department identified roadways where the visibility of lane lines was poor during rainy conditions. The Department initiated a program to enhance the safety of the motoring public in these areas by installing raised pavement markers (RPMs). RPMs sit up higher on the pavement and can be seen especially well during rainy weather when normal pavement markings are covered by water reducing their reflectivity. RPMs were added to approximately 47 lane miles of roadway throughout the City.

Fire – The following major initiatives were in process or completed in FY2006:

- The Department purchased approximately \$2.9 million of assets including two heavy rescue vehicles and ladders, a brush truck, five emergency medical transport units and two chassis for the dive and bomb trucks. The purchase of large blocks of assets provided a significant savings to the City because the unit cost was reduced and avoided the cost increases expected in January 2007 when the new Environmental Protection Agency (EPA) diesel exhaust regulations becomes effective.
- During FY2006, the department was successful in winning the following grant awards:
 - \$650,000 Assistance to Firefighters Grant from the Department of Homeland Security to fund the purchase and installation of mobile data computers in the apparatus.
 - \$156,000 Assistance to Firefighters Grant from the Department of Homeland Security for the initiation of a wellness/fitness program for all uniformed personnel.
 - \$250,000 from the Department of Justice through the Department of Homeland Security for the purchase and installation of emergency generator upgrades.
- The Department was an integral partner with the Virginia Department of Transportation as Congressman Robert Scott took the lead in obtaining \$640,000 in Federal funding and \$160,000 in local matching funds from the State necessary to purchase four self-propelled track driven foam generators for use in the area tunnels and other areas of need. The grant also covers the cost of trailers for transport and training for end users. The specialized equipment will be the first placed in use in the United States. The

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department's efforts provided a framework for other municipalities to use in their quest to obtain these vehicles, New York City being the most prominent.

- The 2006 grant submission to the Department of Homeland Security's Assistance to Firefighters Grant program proposed the purchase of new portable and mobile radio's that are compliant with the new federal P-25 standards at a proposed cost of over \$900,000. The City will be forced to transition over to P-25 compliance for all public safety communications no later than 2011. If successful, the grant would provide approximately 20% of the projected cost. All radios in the current cache would be transitioned over to Public Works providing a significant upgrade to their capabilities.

Human Services – The Department obtained General Assembly approval to operate a pilot Family Drug Treatment Court, with Newport News Social Services serving as the lead agency. The Department ranked 19 out of 120 local departments of Social Services in assisting clients in finding work.

Juvenile Services – The following initiatives were in process or completed during FY 2006:

- The department continues to participate in a partnership with the Virginia Department of Juvenile Justice, and the Annie E. Casey Foundation's Juvenile Detention Alternative Initiative (JDAI). 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 admissions decreased approximately 47% in FY 2006.
- During FY 2006, a parallel team was implemented to place more emphasis on safety awareness by reviewing incidents, providing additional training, conducting quality circles, launching a quarterly safety campaign and review lost-time incidents. The results of these efforts reduced Workman Compensation Costs from \$444,555 to \$65,679.
- The department was instrumental in the City of Newport News being selected as one of the *100 Best Communities for Young People* by America's Promise – The Alliance for Youth. The city was selected for its commitment to providing healthy, safe and caring environments for children and youth. America's Promise, founded in 1997 as a result of the President's Summit for America's Future and chaired by General Colin Powell. The purpose of the 100 Best Communities competition was to recognize outstanding community efforts to put more resources in place, create non-traditional partnerships, and finds was to measure progress toward improving the well-being of children and youth.

Libraries and Information Services – The Library received an award from the Virginia Public Library Directors' Association for seniors' health program on the internet. This program taught seniors how to evaluate internet resources and find reliable health information.

Parks and Recreation – The following are initiatives and accomplishments during FY 2006:

- The Mature Adult division developed and implemented the "Active Lifestyles" program which included six focus groups to determine the concerns and needs of the mature adult community. A "Needs and Services" survey was distributed to random groups in the community and the compilation of the survey results were used to determine the impact of services to the community and develop a five year strategic

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plan for program implementation.

- The Tourism Development office has also produced several new videos promoting Newport News such as “Rainy Day Fun”, “Welcome to our City from our Mayor and City Manager”, and “Work...Live...Play...Retire in Newport News”. Each video is currently being shown in Newport News and Williamsburg hotels on the Vacation Channel.

Planning – The following projects and initiatives were in process or completed during FY 2006:

- Received approval for Congestion Mitigation Air Quality (CMAQ) grants totaling \$11 million.
- Completed: the Mariners’ Museum Multi-Purpose Trail design, the City Center shuttle, the new Fishing Point HRT bus transfer location selection.
- City planning projects underway during the year included: the *Framework for the Future* comprehensive plan update process, the urban waterfront plan for the Southeast Community, the Southeast Community Plan, the 2030 Regional Transportation Plan, the Rivermont Streetscape Enhancement Project, the Lee Hall Train Station, the Asheton development, the Lee Hall Corridor Overlay and Scenic Byway District, the Downing Gross Cultural Arts Building Phase II (second floor), the Peninsula Light Rail Draft Environmental Impact Statement (DEIS), the City Wayfinding Sign Plan, the Denbigh/Warwick Town Center (Newport Crossing) study, the Warwick Boulevard landscape project and draft revisions to the City’s Sign Ordinance.

Police – The first two NN Police Academy classes graduated 38 recruits in December 2005 and in June 2006. The Academy is a 21 week law enforcement program that is comprised of only Newport News officers. The Academy was implemented to expose our recruits to the Newport News philosophy, policies and procedures, resulting in a more productive and efficient academy class.

The focus on crime was the driving force for multiple crime response operations during the year. These operations, conducted by Patrol, Investigations, and Organized Crime, have included:

- Community policing initiatives.
- Hot Spot enforcement in which areas of increased calls for service and serious continuing problems were identified and officers adopted a zero tolerance, aggressive enforcement stance in the area.
- Cooperative initiatives in which officers from a variety of divisions and units worked together in the same area, flooding the area and working together during the same time period, in the same area.
- Aggressive warrant service and warrant operations which focused on the individuals in each precinct who caused the majority of the problems.
- Cooperative efforts with Codes Compliance to address code violations within the precincts.

The Department received two Weed and Seed grants, totaling \$275,000, which will address issues of crime, drugs and disorder in public housing located within the designated Weed and Seed area.

Public Utilities (Waterworks) – The following are major initiatives and accomplishments for FY 2006:

- 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 2006, Waterworks received a permit from the US Army Corps of Engineers to construct the King William Reservoir Project. All permits have now been issued and work began during FY 2006 to fulfill conditions of the federal permit and two major state permits. When completed in 2018, the project is expected to meet the region's water supply needs for the next 50 years and beyond.
- A modern state-of-the-art treatment facility at Lee Hall was substantially complete and producing high quality treated water in December 2005. This new Lee Hall plant is capable of meeting water treatment requirements and should operate for the next 50 years or more.
- In FY 2006, Harwood's Mill Water Treatment Plant became the first facility to be evaluated by the Environmental Management Systems (EMS) team using the 17 elements that must be addressed to complete the EMS process. Participation in the EMS Program is a logical extension of Waterworks' mission, vision and values and its long-standing focus on environmental stewardship.
- 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) and work on this was initiated in FY 2006. This system will provide customers better service and additional features such as direct debit and budget billing. Waterworks plans to go-live with the new system in March 2007.

Public Works – The following are major initiatives and accomplishments for FY 2006:

- 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 eight of the Honeywell contract was \$686,626. The cumulative energy cost avoidance through the end of year eight is \$4,908,502, as compared to the cumulative energy guarantee per the contract of \$2,936,736.
- The Denbigh Compost and Dropoff Facility accepted 116,523 cubic yards of tree debris and yard waste for processing. The compost facility marketed 25,930 cubic yards of mulch, compost and soil/compost blend, with sales reaching \$226,769.50.
- Sidewalk replacement and new installation continued in the Southeast Community, utilizing CDBG (Community Development Block Grant) funds and Street Division operating funds. This is the sixteenth year of sidewalk improvements in the Southeast Community.
- City Council approved approximately \$4.6 million to fund and award the bid to start construction on the Public Works Annex Building for the Wastewater and Stormwater Divisions.

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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, 2005. This was the 27th 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, 2005. 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

- West Avenue Library, Causey's Mill and Young's Mill historic properties have been placed on the National Register of Historic Places.
- Newport News Park, with more than 8,000 acres, is the largest municipal park east of the Mississippi.
- Deer Run, the city's public golf course, has been rated as "Best Value" by Golf Digest.
- The City of Newport News was selected as one of the 100 Best Communities for Young People by America's Promise – The Alliance for Youth.
- Midtown Community Center and Doris Miller Community Center were designated "Age-Friendly Facilities" by the International Council on Active Aging.
- The Economic/Industrial Development Authority of the City was ranked as one of the nation's Top 20 Economic Development Organizations by Site Selection Magazine.
- The International Economic Development Council awarded the Economic Development Authority of the City an Honorable Mention for its new promotional video, "Newport News, Virginia – Hi-tech Hometown."
- The City of Newport News was named a "Tree City USA" by The National Arbor Day Foundation to honor its commitment to the community forest program. This is the twenty-third year Newport News has received this national recognition.
- The Department of Public Works was awarded Re-Accreditation by the American Public Works Association (APWA) on April 28, 2006. Newport News Public Works has been an accredited agency since April 25, 2003, and was the first in Virginia to receive this distinction.

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- In May 2006, Waterworks was honored with the Silver Award by the Hampton Roads Sanitation District for “Exemplary Permit Compliance” for 2005.
- In June 2006, Waterworks was presented the Bronze Excellence in Performance Award by the Virginia Department of Health (VDH), Office of Drinking Water.
- Waterworks received an award from VDH in 2006 for their uninterrupted fluoridation of drinking water for a period of over 50 years (according to VDH guidelines).
- West Avenue Library was the only library in Virginia selected to be included in the upcoming **Heart of the Community: Libraries We Love** by Berkshire Publishing, which will be published in October 2006.
- As one of the original 20 Virginia 2007 Community Program Pilot Communities, the City of Newport News has been selected as one of the destination for the reenactment voyage of Captain John Smith’s famous 1608 Chesapeake expedition. The Captain John Smith 400 Project, sponsored in part by National Geographic and the Chesapeake Bay Foundations has been secured as an on-site participant at the “Come Home to Newport News” festival in May 2007. This will be one of the ten signature events produced by the Jamestown 2007 Commemoration.

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, 2006

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

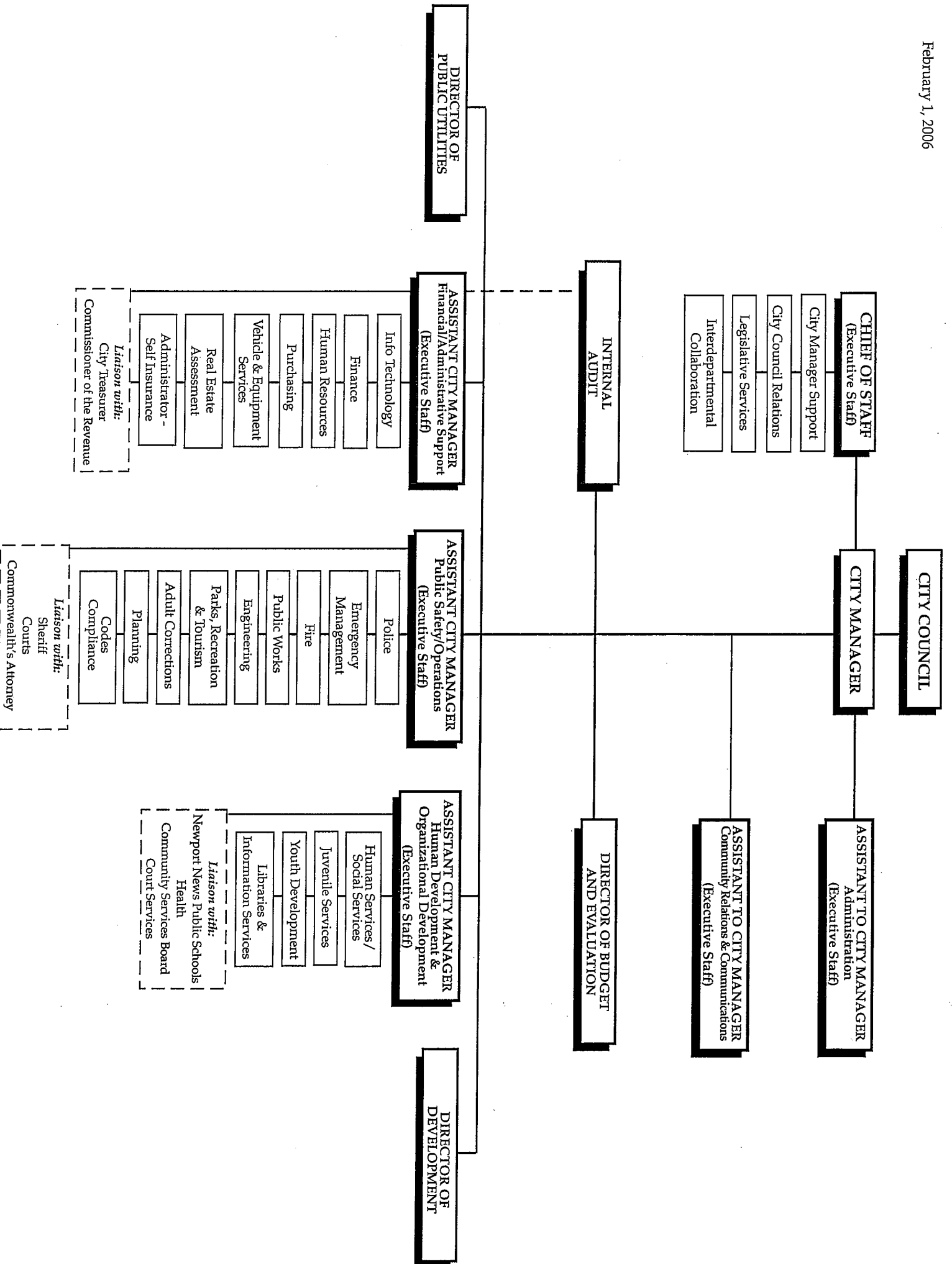
Randy W. Hildebrandt City Manager
Alan K. Archer Assistant City Manager
William P. Mitchell, Jr. Assistant City Manager
Neil A. Morgan Assistant City Manager

Department of Finance

LaVerne Lovett Director of Finance

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



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, 2005

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.



President

Executive Director



Independent Auditors' Report

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 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, 2006, 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 Newport News Public Schools, nor did we audit the financial statements of the Peninsula Airport Commission, which represents 29% and 20% of the respective assets, and 93% and 2% of the respective operating revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Newport News Public Schools and the Peninsula Airport Commission, are based on the reports 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 *Specifications for the 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our report and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in 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 21, 2006 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, 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.

Management's Discussion and Analysis and the other required supplementary information included 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 inquires of management regarding the methods of measurements 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 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 purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The combining and individual nonmajor fund 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 relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Cherry, Bekaert & Holland, L.L.P.

Richmond, Virginia
December 21, 2006

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, 2006. 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) 2006

- The assets of the City, for its governmental activities, exceeded its liabilities at the close of the FY 2006 by \$191.4 million (*net assets*). Of this amount, \$14.6 million is unrestricted.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances at \$115.7 million, a decrease of \$10.1 million in comparison with the prior year. Approximately 76% or \$87.5 million of this amount is unreserved.
- The General Fund, on a current financial resources basis, reported an increase of revenues and other financing sources over expenditures and other financing uses of \$5.0 million, primarily due to higher than expected tax revenues, coupled with restrained spending by department managers.
- At the end of the current fiscal year, the undesignated fund balance for the General Fund was \$35.1 million, or 10.6% of total General Fund expenditures (including payments to Newport News Public Schools) and 9.7% of total General Fund revenues (excluding transfers-in).
- The City's total bonded debt increased by approximately \$6.7 million during the current fiscal year, due to the issuance of \$65.9 million and payments of \$59.2 million (\$30.5 million scheduled repayment of principal and \$28.7 million refunded)

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.
 - *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.

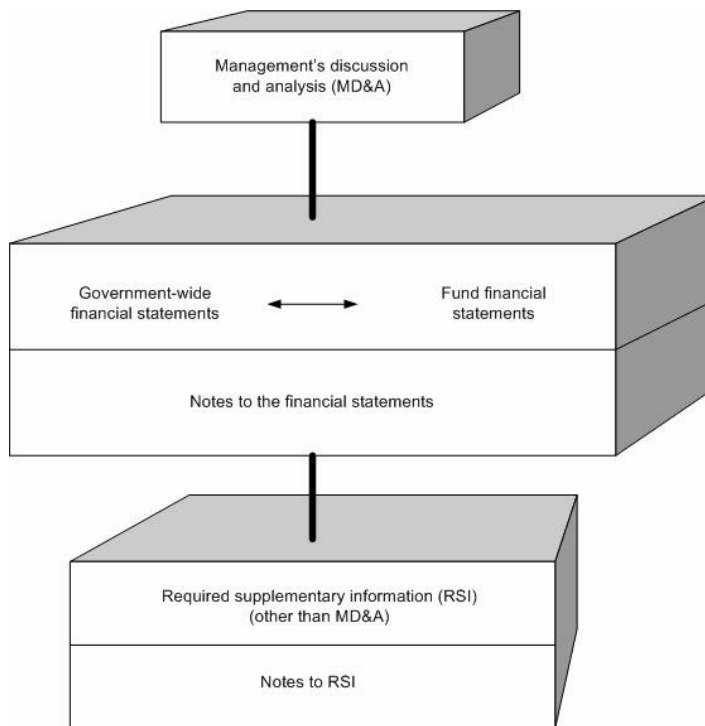
CITY OF NEWPORT NEWS, VIRGINIA

Management's Discussion and Analysis

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



In the past, the primary focus of local government financial statements has been summarized fund type information on a current financial resources basis. However, with the implementation of Statement No. 34 of the Governmental Accounting Standards Board (GASB Statement No. 34) for June 30, 2002, the new focus is on both the City as a whole (government-wide) and the fund financial statements. Each view provides a different snapshot of the City's finances. The government-wide financial statements, which were new for fiscal year 2002, provide both long-term and short-term information about the City's overall financial status. The fund financial statements, which have been provided in the past, 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, 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 and parking facilities are 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 and the Parking Authority 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.
- *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 Trust Fund 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 benefits to its employees.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

This is the fifth year that the City has presented its financial statements under the new reporting model required by GASB Statement No. 34. This reporting model changes significantly both the recording and presentation of financial data. Prior year information is shown in the following comparative analysis of government-wide information.

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):

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 152.4	157.1	60.6	45.7	213.0	202.8
Capital assets, net	<u>578.6</u>	<u>543.1</u>	<u>412.5</u>	<u>407.8</u>	<u>991.1</u>	<u>950.9</u>
Total assets	<u>\$ 731.0</u>	<u>700.2</u>	<u>473.1</u>	<u>453.5</u>	<u>1,204.1</u>	<u>1,153.7</u>
Current and other liabilities	\$ 85.6	73.8	27.1	28.2	112.7	102.0
Long-term liabilities	<u>454.0</u>	<u>429.8</u>	<u>162.7</u>	<u>158.7</u>	<u>616.7</u>	<u>588.5</u>
Total liabilities	<u>539.6</u>	<u>503.6</u>	<u>189.8</u>	<u>186.9</u>	<u>729.4</u>	<u>690.5</u>
Net assets:						
Invested in capital assets, net of related debt	175.3	162.6	264.9	249.5	440.2	412.1
Restricted net assets	1.5	4.0	0.2	0.2	1.7	4.2
Unrestricted net assets	<u>14.6</u>	<u>30.0</u>	<u>18.2</u>	<u>16.9</u>	<u>32.8</u>	<u>46.9</u>
Total net assets	<u>191.4</u>	<u>196.6</u>	<u>283.3</u>	<u>266.6</u>	<u>474.7</u>	<u>463.2</u>
Total liabilities and net assets	<u>\$ 731.0</u>	<u>700.2</u>	<u>473.1</u>	<u>453.5</u>	<u>1,204.1</u>	<u>1,153.7</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 \$474.7 million at the close of fiscal year 2006. By far the largest portion of the City's net assets (93%) reflects its investment in capital assets (e.g., land, buildings, equipment, 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. The remaining balance of unrestricted net assets (32.8 million or 7%) 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 \$196.6 million at June 30, 2005 to \$191.4 million at June 30, 2006 as a result of a decrease in net assets of \$5.2 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

The net assets of the City's business-type activities increased from \$266.6 million to \$283.3 million. However, these resources cannot be used to make up for any net asset deficit in governmental activities. The City generally can only use these net assets to finance the continuing operations of its enterprise operations, which include the Public Utility and Parking Authority Funds.

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):

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Revenues:						
Program revenues:						
Charges for services	\$ 50.9	48.1	72.4	64.7	123.3	112.8
Operating grants and contributions	43.9	59.9	-	-	43.9	59.9
Capital grants and contributions	3.0	11.3	-	-	3.0	11.3
General revenues:						
Property taxes	187.9	172.6	-	-	187.9	172.6
Other taxes	89.2	83.4	-	-	89.2	83.4
Grants and contributions not restricted to specific programs	45.5	37.7	-	-	45.5	37.7
Investment earnings	5.0	3.1	1.2	0.5	6.2	3.6
Miscellaneous	11.6	8.0	3.8	4.7	15.4	12.7
Total revenues	<u>437.0</u>	<u>424.1</u>	<u>77.4</u>	<u>69.9</u>	<u>514.4</u>	<u>494.0</u>
Expenses:						
General government	65.0	57.0	-	-	65.0	57.0
Judicial administration	6.4	6.1	-	-	6.4	6.1
Public safety	100.5	96.6	-	-	100.5	96.6
Public works	63.7	54.4	-	-	63.7	54.4
Health and welfare	53.4	53.7	-	-	53.4	53.7
Education	104.0	107.4	-	-	104.0	107.4
Parks, recreation and culture	29.9	27.1	-	-	29.9	27.1
Community development	11.2	10.5	-	-	11.2	10.5
Public Utility	-	-	51.4	46.0	51.4	46.0
Parking Authority	-	-	0.2	0.3	0.2	0.3
Interest on long-term debt	17.2	19.1	-	-	17.2	19.1
Total expenses	<u>451.3</u>	<u>431.9</u>	<u>51.6</u>	<u>46.3</u>	<u>502.9</u>	<u>478.2</u>
Excess (deficiency) before transfers	<u>(14.3)</u>	<u>(7.8)</u>	<u>25.8</u>	<u>23.6</u>	<u>11.5</u>	<u>15.8</u>
Transfers	9.1	9.1	(9.1)	(9.1)	-	-
Increase (decrease) in net assets	<u>(5.2)</u>	<u>1.3</u>	<u>16.7</u>	<u>14.5</u>	<u>11.5</u>	<u>15.8</u>
Beginning Net Assets, as restated	196.6	195.3	266.6	252.1	463.2	447.4
Ending Net Assets	<u>\$ 191.4</u>	<u>196.6</u>	<u>283.3</u>	<u>266.6</u>	<u>474.7</u>	<u>463.2</u>

CITY OF NEWPORT NEWS, VIRGINIA

Management's Discussion and Analysis

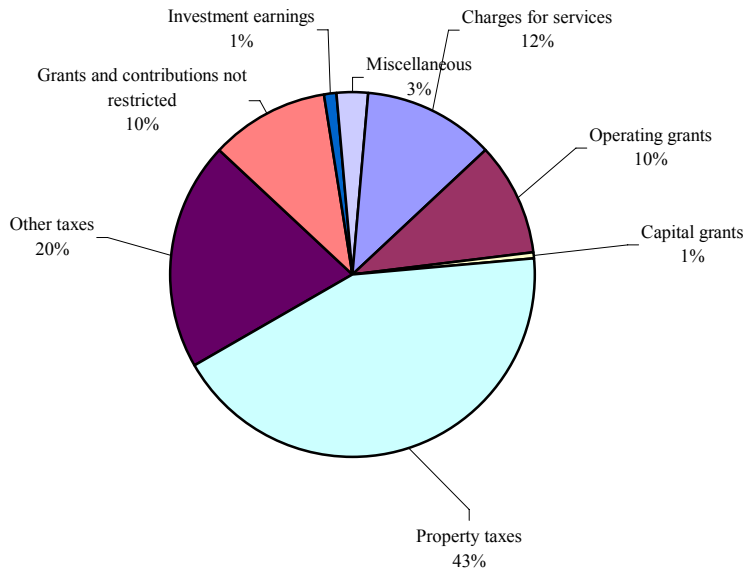
Governmental Activities

The City's total revenues from governmental activities were \$437.0 million for the fiscal year ended June 30, 2006. The largest source of revenue (\$187.9 million for fiscal year 2006) 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 2006 increased 15%. The significant increase resulted in City Council lowering the tax rate from \$1.27 to \$1.24. The City Council has also voted to reduce the tax rate by an additional \$.04 effective July 1, 2006.

Approximately 63% of the City's revenue from governmental activities comes from some type of tax, and 12% comes from fees charged for services.

The City's expenses cover a wide range of services, with 22%, or \$100.5 million for fiscal year 2006 related to public safety and 23%, or \$104 million for fiscal year 2006 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 \$16.7 million largely as a result of assets deeded over by developers. Charges for services, including water and parking fees, make up 94% 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, unreserved fund balance was \$91.7 million of which \$35.1 million represents undesignated fund balance of the General Fund. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balances represent 28% of the total fund expenditures, while total fund balance represents 30% of that same amount.

Debt Service Fund

The debt service fund has a fund balance of \$0.3 million. During the current fiscal year, the fund balance decrease of \$0.8 million is a net result of bonds refunded, 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. At the end of the current fiscal year, the bond fund balance has a balance of \$4.3 million.

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.

Growth in net assets was \$16.7 million, resulting mainly from connection fees in the amount of \$3.7 and an increase from operations of \$26.8 million.

The Parking Authority had \$0.2 million in restricted net assets at June 30, 2006.

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund (Budget Basis)

Fiscal Year 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues:			
Taxes	\$ 268,322,938	268,322,938	278,647,544
Intergovernmental	42,957,425	43,222,822	45,473,866
Other	46,110,887	46,148,134	48,682,459
Total	<u>357,391,250</u>	<u>357,693,894</u>	<u>372,803,869</u>
Expenditures and Transfers:			
Expenditures	335,662,687	334,352,488	325,759,160
Transfers out	33,769,538	38,275,446	37,250,800
Total	<u>369,432,225</u>	<u>372,627,934</u>	<u>363,009,960</u>
Change in fund balance	\$ <u>(12,040,975)</u>	<u>(14,934,040)</u>	<u>9,793,909</u>

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 \$3.2 million (increase in appropriations). The variance is mainly due to the following:

- \$12.1 million reduced appropriation for street maintenance due to same appropriation adopted in the special revenue funds.
- \$15.3 million additional funding as follows:
 - \$1.7 million - vehicle equipment lease
 - \$4.0 million – pension fund additional contribution
 - \$2.0 million – IDA – additional funding
 - \$4.5 million – capital improvement fund
 - \$2.0 million – EIDA
 - \$0.4 million – self insurance fund
 - \$0.3 million – Circuit Court records conversion and technology trust
 - \$0.4 million – Street construction

Actual General Fund revenues and transfers from other funds were above the final budgeted revenues by \$15.1 million. Expenditures and transfers out were under budget by \$9.6 million. This positive budget variance helped to partially offset the planned use of undesignated fund balance.

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, 2006 amounts to \$991 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 \$42.2 million for governmental activities at the end of the fiscal year (including certain Public Schools projects under construction).
- Construction in progress totaled \$40.8 million for business-type activities at the end of the fiscal year and relates to the following projects: regional raw water supply costs, Lee Hall Treatment Plant modifications, Harwoods Mill Dam Spillway improvements, Colonial Pipeline and customer information system.

CITY OF NEWPORT NEWS, VIRGINIA

Management's Discussion and Analysis

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

	Governmental Activities		Business-Type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 79,449,349	75,473,967	6,176,118	6,539,545	85,625,467	82,013,512
Construction in progress	42,174,547	21,821,939	40,803,792	121,665,973	82,978,339	143,487,912
Buildings	198,142,923	196,769,025	14,730,585	15,035,161	212,873,508	211,804,186
Water systems	-	-	341,950,332	257,366,291	341,950,332	257,366,291
Improvements	66,635,300	67,137,468	3,507,942	1,648,099	70,143,242	68,785,567
Machinery and equipment	40,181,648	35,117,787	5,296,142	5,550,278	45,477,790	40,668,065
Infrastructure	152,031,504	146,767,537	-	-	152,031,504	146,767,537
Total	\$ <u>578,615,271</u>	<u>543,087,723</u>	<u>412,464,911</u>	<u>407,805,347</u>	<u>991,080,182</u>	<u>950,893,070</u>

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

Long-Term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding (including literary loans) of \$570.4 million, a decrease of 1% over last year, as shown in the table below. Capital leases, landfill liability, accrued vacation and claims payable are not included in these figures.

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

	Governmental Activities		Business-Type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
General obligation bonds	\$ 401.0	394.4	166.5	165.2	567.5	559.6
Literary loans	2.9	3.6	-	-	2.9	3.6
Total	\$ <u>403.9</u>	<u>398.0</u>	<u>166.5</u>	<u>165.2</u>	<u>570.4</u>	<u>563.2</u>

The amount of the debt outstanding related to School Board activities is \$123.3 million of the total outstanding general obligation bonds of the governmental activities.

The City issued new debt during the year totaling \$65.9 million in the form of general obligation bonds and resulted mainly from issuing general obligation bonds.

The City maintains an Aa rating from Standard & Poor's Corporation. Under Moody's Investors Service, the City maintains an Aa2 rating.

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

CITY OF NEWPORT NEWS, VIRGINIA

Management's Discussion and Analysis

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The unemployment rate in June 2006 for the City of Newport News was 4.2%, which is a decrease from the average for 2005 of 5.2%. The City's annual population growth rate has remained stable over the last two years, from approximately 185,240 at the end of fiscal year 2005 to 186,000 at the end of fiscal year 2006.

The growth in assessed real estate values allowed the City to lower the real estate tax rate effective July 1, 2006 from \$1.24 per \$100 in assessed value to \$1.20 per \$100.

Beginning in tax year 2006, the Commonwealth of Virginia will no longer reimburse localities for personal property tax assessments at the current rate of 70%. Rather, the Commonwealth will cap statewide reimbursements at \$950 million with each locality receiving a percentage based on tax year 2004 reimbursements. The Auditor of Public Accounts has certified that the City will receive \$18.6 million annually beginning in tax year 2006 and thereafter. The funds will be received in three installments each year (July 31st, August 15th, and November 15th). The \$18.6 million will be used annually as the base allocated amount in determining the percentage of tax relief for all qualifying vehicles.

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.

CITY OF NEWPORT NEWS, VIRGINIA
Statement of Net Assets
June 30, 2006

Assets	Primary government			Discretely presented component units	
	Governmental activities	Business-type activities	Total	Public schools	Others
Cash and cash equivalents	\$ 83,091,474	16,951,425	100,042,899	20,613,799	7,548,346
Restricted cash and investment	9,723,908	26,671,376	36,395,284	—	62,816,809
Accounts receivable, net	17,165,958	9,577,178	26,743,136	595,867	6,573,056
Receivable from Industrial Development Authority	16,929,071	—	16,929,071	—	—
Receivable from primary government	—	—	—	33,765	5,360,000
Receivables from other government	21,786,113	—	21,786,113	20,336,798	23,160,000
Inventory, at cost	1,603,399	2,995,272	4,598,671	964,994	67,398
Land held for lease or resale	—	—	—	—	16,522,873
Net investment in direct financing lease	—	—	—	—	16,094,539
Capital assets:					
Land	79,449,349	6,176,118	85,625,467	2,505,084	5,712,070
Construction in progress:	42,174,547	40,803,792	82,978,339	132,439	47,531,354
Buildings	265,498,501	16,257,597	281,756,098	51,397,821	99,102,130
Improvements	115,003,940	3,532,823	118,536,763	32,635,894	10,267,249
Water system	—	470,866,823	470,866,823	—	—
Airport assets	—	—	—	—	97,386,814
Machinery and equipment	107,770,455	18,211,241	125,981,696	83,680,965	3,401,121
Infrastructure	413,098,911	—	413,098,911	—	1,521,049
	<u>1,022,995,703</u>	<u>555,848,394</u>	<u>1,578,844,097</u>	<u>170,352,203</u>	<u>264,921,787</u>
Less accumulated depreciation	(444,380,432)	(143,383,483)	(587,763,915)	(83,825,903)	(57,137,608)
Capital assets, net	578,615,271	412,464,911	991,080,182	86,526,300	207,784,179
Other assets	2,090,586	4,487,015	6,577,601	10,978,785	1,243,902
Total assets	<u>\$ 731,005,780</u>	<u>473,147,177</u>	<u>1,204,152,957</u>	<u>140,050,308</u>	<u>347,171,102</u>
Liabilities and Net Assets					
Liabilities:					
Accounts payable	\$ 20,417,221	2,746,311	23,163,532	8,957,208	1,964,485
Accrued liabilities	6,769,657	8,629,330	15,398,987	21,943,251	735,320
Deposits	4,661,773	4,484,396	9,146,169	—	37,908
Unearned revenue	433,880	—	433,880	528,250	39,797
Payable to Newport News Public Schools	33,765	—	33,765	—	347,877
Payable to primary government	—	—	—	—	16,929,071
Long term liabilities:					
Due within one year	54,108,189	11,255,000	65,363,189	5,309,193	10,036,755
Due in more than one year	453,150,357	162,716,869	615,867,226	25,317,507	201,051,152
Total liabilities	<u>539,574,842</u>	<u>189,831,906</u>	<u>729,406,748</u>	<u>62,055,409</u>	<u>231,142,365</u>
Net assets:					
Invested in capital assets, net of related debt	175,306,479	264,939,418	440,245,897	62,872,389	83,938,152
Restricted for:					
Grants projects	1,521,091	—	1,521,091	—	—
Capital projects	—	225,000	225,000	—	2,834,062
Capital loans	—	—	—	—	14,077,997
Unrestricted	14,603,368	18,150,853	32,754,221	15,122,510	15,178,526
Total net assets	<u>191,430,938</u>	<u>283,315,271</u>	<u>474,746,209</u>	<u>77,994,899</u>	<u>116,028,737</u>
Total liabilities and net assets	<u>\$ 731,005,780</u>	<u>473,147,177</u>	<u>1,204,152,957</u>	<u>140,050,308</u>	<u>347,171,102</u>

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Statement of Activities
Year ended June 30, 2006

	Program revenues			Net (expense) revenue and changes in net assets			Public schools	Other component units
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Primary government			
					Governmental activities	Business-type activities		
Primary government:								
Governmental activities:								
General government	\$ 64,991,195	5,406,850	—	2,970,950	(56,613,395)	—	(56,613,395)	
Judicial administration	6,397,049	3,423,979	—	—	(2,973,070)	—	(2,973,070)	
Public safety	100,481,015	9,251,041	4,441,077	—	(86,788,897)	—	(86,788,897)	
Public works	63,695,077	26,160,999	12,371,542	—	(25,162,536)	—	(25,162,536)	
Health and welfare	53,362,500	131,732	7,465,351	—	(45,765,417)	—	(45,765,417)	
Education	104,054,463	—	16,415,709	—	(87,638,754)	—	(87,638,754)	
Parks, recreation and culture	29,934,662	6,545,008	174,516	—	(23,215,138)	—	(23,215,138)	
Community development	11,168,279	—	2,993,006	—	(8,175,273)	—	(8,175,273)	
Interest on long-term deb	17,169,976	—	—	—	(17,169,976)	—	(17,169,976)	
Total governmental activities	<u>451,254,216</u>	<u>50,919,609</u>	<u>43,861,201</u>	<u>2,970,950</u>	<u>(353,502,456)</u>	<u>—</u>	<u>(353,502,456)</u>	
Business-type activities:								
Public utility	51,394,362	72,115,780	—	—	—	20,721,418	20,721,418	
Parking authority	199,461	281,765	—	—	—	82,304	82,304	
Total business-type activities	<u>51,593,823</u>	<u>72,397,545</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>20,803,722</u>	<u>20,803,722</u>	
Total primary government	<u>\$ 502,848,039</u>	<u>123,317,154</u>	<u>43,861,201</u>	<u>2,970,950</u>	<u>(353,502,456)</u>	<u>20,803,722</u>	<u>(332,698,734)</u>	
Component units:								
Public schools	\$ 297,865,031	6,401,686	55,052,021	2,859,275	—	—	(233,552,049)	—
Peninsula Airport Commission	9,156,905	6,429,107	—	5,696,641	—	—	—	2,968,843
Economic and Industrial Development Authorities	12,549,633	10,066,108	—	—	—	—	—	(2,483,525)
Total component units	<u>\$ 319,571,569</u>	<u>22,896,901</u>	<u>55,052,021</u>	<u>8,555,916</u>	<u>—</u>	<u>—</u>	<u>(233,552,049)</u>	<u>485,318</u>
General revenues:								
City Taxes:								
General property				187,912,894	—	187,912,894	—	—
E-911 service				2,750,556	—	2,750,556	—	—
Local sales and use				22,432,446	—	22,432,446	—	—
Consumers' utility				9,254,101	—	9,254,101	—	—
Cellular telephone				3,117,614	—	3,117,614	—	—
Consumption				774,586	—	774,586	—	—
Business license				14,701,671	—	14,701,671	—	—
Rental car				932,481	—	932,481	—	—
Franchise license				1,732,167	—	1,732,167	—	—
Cable television				2,108,165	—	2,108,165	—	—
Motor vehicle license				3,585,645	—	3,585,645	—	—
Bank stock taxes				600,317	—	600,317	—	—
Recordation and wills				2,535,995	—	2,535,995	—	—
Tobacco				4,622,565	—	4,622,565	—	—
Hotel and motel room tax				2,802,362	—	2,802,362	—	—
Restaurant food tax				16,649,811	—	16,649,811	—	—
Amusement				569,643	—	569,643	—	—
Total City Taxes				<u>277,083,019</u>	<u>—</u>	<u>277,083,019</u>	<u>—</u>	<u>—</u>
Grants and contributions not restricted to specific programs				45,473,865	—	45,473,865	145,975,653	—
Payment from the City				—	—	—	84,558,244	4,585,028
Investment earnings:				5,007,664	1,240,697	6,248,361	97,051	1,798,278
Miscellaneous				11,587,685	3,753,852	15,341,537	476,128	350,575
Transfers				9,134,000	(9,134,000)	—	—	—
Total general revenues and transfers				<u>348,286,233</u>	<u>(4,139,451)</u>	<u>621,229,801</u>	<u>231,107,076</u>	<u>6,733,881</u>
Change in net assets				(5,216,223)	16,664,271	11,448,048	(2,444,973)	7,219,199
Net assets at beginning of year, as restated				196,647,161	266,651,000	463,298,161	80,439,872	108,809,538
Net assets at end of year				<u>\$ 191,430,938</u>	<u>283,315,271</u>	<u>474,746,209</u>	<u>77,994,899</u>	<u>116,028,737</u>

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Balance Sheet
Governmental Funds
June 30, 2006

Assets	General fund	Debt service fund	Bond fund	Nonmajor governmental funds	Total governmental funds
Cash and cash equivalents	\$ 68,624,013	116,929	—	12,881,784	81,622,726
Restricted cash	—	319,453	9,404,455	—	9,723,908
Accounts receivable, net	15,769,027	—	—	1,396,931	17,165,958
Advances to other fund:	1,192,610	—	—	—	1,192,610
Receivable from component unit	16,929,071	—	—	—	16,929,071
Receivables from other government	16,113,743	—	1,462,400	4,209,970	21,786,113
Inventory, at cost	1,192,821	—	—	—	1,192,821
Total assets	\$ 119,821,285	436,382	10,866,855	18,488,685	149,613,207
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 10,000,615	46,429	6,500,667	3,711,035	20,258,746
Accrued liabilities	977,538	70,500	51	175,624	1,223,713
Deposits	4,661,773	—	—	—	4,661,773
Deferred revenue	5,833,764	—	—	417,203	6,250,967
Unearned revenue	304,562	—	—	—	304,562
Payable to Newport News Public Schools	—	—	33,765	—	33,765
Advances from major governmental fund	—	—	—	1,192,610	1,192,610
Total liabilities	21,778,252	116,929	6,534,483	5,496,472	33,926,136
Fund balances:					
Reserved for:					
Inventory	1,192,821	—	—	—	1,192,821
Encumbrances	5,163,582	—	20,476,008	1,397,127	27,036,717
Unreserved:					
Designated for:					
Imprest funds:	21,988	—	—	—	21,988
FY07 budget	928,000	—	—	—	928,000
Self-insurance activity	15,613,428	—	—	—	15,613,428
Debt service	—	319,453	—	—	319,453
Applied Research Center	16,929,071	—	—	—	16,929,071
Capital projects	—	—	—	2,527,608	2,527,608
Specific projects:					
General fund	23,076,018	—	—	—	23,076,018
Bond fund	—	—	(16,143,636)	—	(16,143,636)
Non-Major funds:					
Capital projects - Gen cap improvement	—	—	—	143,173	143,173
Law library	—	—	—	25	25
Stormwater	—	—	—	2,273,877	2,273,877
Solid Waste	—	—	—	1,336,607	1,336,607
Other Federal and State	—	—	—	2,081,458	2,081,458
Undesignated:					
General fund	35,118,125	—	—	—	35,118,125
Non-Major funds:					
Economic Development	—	—	—	781,006	781,006
Law Library	—	—	—	97,017	97,017
Stormwater	—	—	—	1,457,631	1,457,631
Solid Waste	—	—	—	894,748	894,748
Wastewater	—	—	—	(2,925)	(2,925)
Revenue Sharing (Capital projects)	—	—	—	4,861	4,861
Total fund balances	98,043,033	319,453	4,332,372	12,992,213	115,687,071
Total liabilities and fund balances	\$ 119,821,285	436,382	10,866,855	18,488,685	149,613,207

See accompanying notes to basic financial statement

CITY OF NEWPORT NEWS, VIRGINIA
Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Assets
June 30, 2006

Fund balances – total governmental funds		\$ 115,687,071
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	\$ 981,281,728	
Less accumulated depreciation	<u>(419,604,757)</u>	
		561,676,971
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		6,121,649
Internal service funds are used by management to charge the costs of certain activities to individual funds.	18,332,170	
Adjustment to add back accrued vacation included below	<u>259,391</u>	
		18,591,561
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.		2,090,586
Unmatured interest payable reported in governmental activities will not be paid with current financial resources and therefore, are not reported in the funds.		(5,478,354)
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	(406,220,772)	
Literary fund bonds	(2,894,833)	
Capital leases payable	(219,145)	
Land lease payable	(2,176,859)	
Landfill liability	(6,332,000)	
Accrued vacation	(19,769,468)	
Workers' compensation and other claims	(11,779,469)	
Net pension obligations	(55,174,000)	
Incurred but not reported claims	<u>(2,692,000)</u>	
		<u>(507,258,546)</u>
Net assets of governmental activities		<u>\$ 191,430,938</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, 2006

	General fund	Debt service fund	Bond fund	Nonmajor governmental funds	Total governmental funds
Revenues:					
General property taxes	\$ 189,477,417	—	—	—	189,477,417
Other local taxes	89,170,127	—	—	—	89,170,127
Licenses and permit:	3,486,460	—	—	—	3,486,460
Fines and forfeitures:	2,078,904	—	—	—	2,078,904
Intergovernmental	45,473,866	16,415,709	—	28,308,754	90,198,329
Charges for service:	15,211,029	—	—	26,078,360	41,289,389
Interest and rent	4,681,688	—	—	305,292	4,986,980
Recovered costs	7,551,316	—	—	—	7,551,316
Miscellaneous	6,539,062	38,786	—	136,242	6,714,090
Total revenues	<u>363,669,869</u>	<u>16,454,495</u>	<u>—</u>	<u>54,828,648</u>	<u>434,953,012</u>
Expenditures:					
Current operating:					
General government	56,842,050	547,105	—	105,142	57,494,297
Judicial administration	5,517,042	—	—	—	5,517,042
Public safety	85,615,084	—	—	4,893,304	90,508,388
Public works	15,323,014	—	—	34,592,048	49,915,062
Health and welfare	36,128,269	—	—	12,861,067	48,989,336
Education	101,186,564	—	3,661,420	—	104,847,984
Parks, recreation and culture	24,144,679	—	—	162,396	24,307,075
Community development	5,762,157	—	—	3,060,649	8,822,806
Debt service:					
Principal	—	31,156,086	—	—	31,156,086
Interest and other charge:	—	17,281,079	474,683	—	17,755,762
Capital outlay	—	—	50,327,944	2,297,533	52,625,477
Total expenditures	<u>330,518,859</u>	<u>48,984,270</u>	<u>54,464,047</u>	<u>57,972,139</u>	<u>491,939,315</u>
Excess (deficiency) of revenues over (under) expenditure:	<u>33,151,010</u>	<u>(32,529,775)</u>	<u>(54,464,047)</u>	<u>(3,143,491)</u>	<u>(56,986,303)</u>
Other financing sources (uses):					
Transfers in	9,134,000	32,310,688	598,749	9,919,262	51,962,699
Transfers out	(37,250,800)	(598,749)	—	(5,729,149)	(43,578,698)
Payments to refunded bonds escrow agen	—	—	(30,532,569)	—	(30,532,569)
Premium on bonds:	—	—	3,115,756	—	3,115,756
Refunded bonds proceed:	—	—	28,020,000	—	28,020,000
Bond and note proceeds	—	—	37,872,990	—	37,872,990
Total other financing sources (uses)	<u>(28,116,800)</u>	<u>31,711,939</u>	<u>39,074,926</u>	<u>4,190,113</u>	<u>46,860,178</u>
Net changes in fund balances	5,034,210	(817,836)	(15,389,121)	1,046,622	(10,126,125)
Fund balances at June 30, 2005, as restated	93,008,823	1,137,289	19,721,493	11,945,591	125,813,196
Fund balances at June 30, 2006	<u>\$ 98,043,033</u>	<u>319,453</u>	<u>4,332,372</u>	<u>12,992,213</u>	<u>115,687,071</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, 2006

Net change in fund balances – total governmental funds		\$ (10,126,125)
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 expense that relate to assets acquired that do not meet the capitalization threshold of the City:		
Capital outlay expenditures	\$ 52,625,477	
Less: Capital outlay expenditures not meeting capitalization threshold	(183,065)	
Depreciation expense	<u>(21,680,278)</u>	
		30,762,134
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 asset will revert back to the Schools when the debt is paid in full. These asset are not reported in the governmental funds		
		3,874,031
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Deferred revenue increased by this amount in the current year		
		(1,564,523)
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	59,896,086	
Debt issued (and related costs)	(65,892,991)	
Premium on issuance of long-term debt	(526,198)	
Current year loss on refunding	1,792,569	
Amortization of refunding gains (losses)	(1,147,710)	
Debt issuance costs, net of amortization	<u>210,643</u>	
		(5,667,601)
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	111,103	
Landfill liability	169,000	
Allowance for doubtful accounts	(648,772)	
Accrued vacation	(1,009,646)	
Net pension obligation	(22,929,000)	
Workers' compensation and other claims	(160,541)	
Incurred but not reported liabilities	<u>108,000</u>	
		(24,359,856)
Some capital additions were financed through capital leases in a prior year. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. Payments on capital leases were made in this amount in the current year.		
		209,391
Internal service funds are used by management to charge the costs of certain services to individual funds. The net income of the internal service fund is reported with governmental activities (excludes change in compensated absences)		
		<u>1,656,326</u>
Change in net assets of governmental activities		<u><u>\$ (5,216,223)</u></u>

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Statement of Net Assets

Proprietary Funds

June 30, 2006

Assets	Enterprises Funds			Internal Service Fund
	Major Fund - Public Utility	Nonmajor fund - Parking Authority	Total	
Current assets:				
Cash and cash equivalents	\$ 15,982,362	969,063	16,951,425	1,468,748
Restricted cash	26,446,376	225,000	26,671,376	—
Accounts receivable, net	9,577,178	—	9,577,178	—
Inventory	2,995,272	—	2,995,272	410,579
Total current assets	<u>55,001,188</u>	<u>1,194,063</u>	<u>56,195,251</u>	<u>1,879,327</u>
Noncurrent assets:				
Capital assets:				
Land	5,444,271	731,847	6,176,118	20,257
Improvements	—	3,532,823	3,532,823	—
Buildings	16,257,597	—	16,257,597	3,670,736
Water system	470,866,823	—	470,866,823	—
Machinery and equipment	18,187,241	24,000	18,211,241	38,022,982
Construction in progress	40,778,432	25,360	40,803,792	—
	<u>551,534,364</u>	<u>4,314,030</u>	<u>555,848,394</u>	<u>41,713,975</u>
Less accumulated depreciation	<u>(141,370,762)</u>	<u>(2,012,721)</u>	<u>(143,383,483)</u>	<u>(24,775,675)</u>
Capital assets, net	410,163,602	2,301,309	412,464,911	16,938,300
Other assets	4,487,015	—	4,487,015	—
Total noncurrent assets	<u>414,650,617</u>	<u>2,301,309</u>	<u>416,951,926</u>	<u>16,938,300</u>
Total assets	<u>\$ 469,651,805</u>	<u>3,495,372</u>	<u>473,147,177</u>	<u>18,817,627</u>
Liabilities and Net Assets				
Liabilities:				
Current liabilities:				
Accounts payable	\$ 2,741,620	4,691	2,746,311	158,475
Accrued liabilities	8,629,292	38	8,629,330	326,982
Current portion of general obligation bonds payable	10,510,000	—	10,510,000	—
Total current liabilities	<u>21,880,912</u>	<u>4,729</u>	<u>21,885,641</u>	<u>485,457</u>
Noncurrent liabilities:				
Deposits	4,484,396	—	4,484,396	—
General obligation bonds payable, net of current portion	155,965,000	—	155,965,000	—
Premium on bonds payable	7,496,869	—	7,496,869	—
Total noncurrent liabilities	<u>167,946,265</u>	<u>—</u>	<u>167,946,265</u>	<u>—</u>
Total liabilities	<u>189,827,177</u>	<u>4,729</u>	<u>189,831,906</u>	<u>485,457</u>
Net assets:				
Invested in capital assets, net of related debt	262,638,109	2,301,309	264,939,418	16,938,300
Restricted for capital projects	—	225,000	225,000	—
Unrestricted	17,186,519	964,334	18,150,853	1,393,870
Total net assets	<u>279,824,628</u>	<u>3,490,643</u>	<u>283,315,271</u>	<u>18,332,170</u>
Total liabilities and net assets	<u>\$ 469,651,805</u>	<u>3,495,372</u>	<u>473,147,177</u>	<u>18,817,627</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, 2006

	Enterprises Funds			Internal Service Fund
	Major Fund - Public Utility	Nonmajor fund - Parking Authority	Total	
Operating revenues:				
Water sales	\$ 59,240,966	—	59,240,966	—
Charges for services	11,192,515	279,293	11,471,808	7,657,084
Miscellaneous	1,682,299	2,472	1,684,771	1,702,966
Total operating revenues	<u>72,115,780</u>	<u>281,765</u>	<u>72,397,545</u>	<u>9,360,050</u>
Operating expenses:				
Personal services	18,243,369	32,195	18,275,564	2,157,543
Contractual services	7,542,813	16,439	7,559,252	76,464
Internal services	1,484,683	—	1,484,683	71,509
Materials and supplies	3,465,295	41,284	3,506,579	5,019,048
Depreciation	10,863,580	105,497	10,969,077	2,962,402
Other	3,761,690	4,046	3,765,736	—
Total operating expenses	<u>45,361,430</u>	<u>199,461</u>	<u>45,560,891</u>	<u>10,286,966</u>
Operating income (loss)	<u>26,754,350</u>	<u>82,304</u>	<u>26,836,654</u>	<u>(926,916)</u>
Nonoperating revenues (expenses):				
Interest revenue	1,208,846	31,851	1,240,697	20,682
Gain (loss) on disposal of capital assets	(82,763)	—	(82,763)	419,969
Meter and service connection fees	3,753,852	—	3,753,852	—
Amortization, cost of issuing bonds	(1,535,327)	—	(1,535,327)	—
Interest expense	(4,414,842)	—	(4,414,842)	—
Total nonoperating revenues (expenses)	<u>(1,070,234)</u>	<u>31,851</u>	<u>(1,038,383)</u>	<u>440,651</u>
Income (loss) before capital contributions and transfers out	<u>25,684,116</u>	<u>114,155</u>	<u>25,798,271</u>	<u>(486,265)</u>
Capital contributions for capital assets	—	—	—	2,107,686
Transfers out	(9,134,000)	—	(9,134,000)	—
Change in net assets	<u>16,550,116</u>	<u>114,155</u>	<u>16,664,271</u>	<u>1,621,421</u>
Net assets at June 30, 2005, as restated	<u>263,274,512</u>	<u>3,376,488</u>	<u>266,651,000</u>	<u>16,710,749</u>
Net assets at June 30, 2006	<u>\$ 279,824,628</u>	<u>3,490,643</u>	<u>283,315,271</u>	<u>18,332,170</u>

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2006

	Enterprise Funds			Internal Service Fund
	Major Fund - Public Utility	Nonmajor fund - Parking Authority	Total	
Cash flows from operating activities:				
Receipts from customers	\$ 71,601,032	279,293	71,880,325	9,360,050
Payments to suppliers	(15,199,245)	(78,605)	(15,277,850)	(5,900,910)
Payments to employees	(18,090,463)	(32,562)	(18,123,025)	(2,125,996)
Other payments	—	2,472	2,472	—
Net cash provided by operating activities	<u>38,311,324</u>	<u>170,598</u>	<u>38,481,922</u>	<u>1,333,144</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(9,693,372)	(3,020)	(9,696,392)	(1,326,130)
Proceeds from bond issue, net	15,110,930	—	15,110,930	—
Repayment and retirement of long-term debt	(13,320,000)	—	(13,320,000)	—
Interest paid	(7,329,577)	—	(7,329,577)	—
Net cash used in capital and related financing activities	<u>(15,232,019)</u>	<u>(3,020)</u>	<u>(15,235,039)</u>	<u>(1,326,130)</u>
Cash flows used in noncapital financing activities - Transfer to other funds	<u>(9,134,000)</u>	<u>—</u>	<u>(9,134,000)</u>	<u>—</u>
Cash flows provided by investing activities - Interest received	<u>1,208,846</u>	<u>31,851</u>	<u>1,240,697</u>	<u>20,682</u>
Increase in cash and restricted cash	15,154,151	199,429	15,353,580	27,696
Cash and restricted cash at beginning of year	<u>27,274,587</u>	<u>994,634</u>	<u>28,269,221</u>	<u>1,441,052</u>
Cash and restricted cash at end of year	\$ <u>42,428,738</u>	\$ <u>1,194,063</u>	\$ <u>43,622,801</u>	\$ <u>1,468,748</u>
Reported as:				
Cash and cash equivalents	\$ 15,682,362	969,063	16,651,425	1,468,748
Restricted cash	<u>26,446,376</u>	<u>225,000</u>	<u>26,671,376</u>	<u>—</u>
Total cash & cash equivalents	\$ <u>42,128,738</u>	\$ <u>1,194,063</u>	\$ <u>43,322,801</u>	\$ <u>1,468,748</u>
Cash flows from operating activities:				
Operating income	\$ 26,754,350	82,304	26,836,654	(926,916)
Adjustments to reconcile operating income to cash provided by operating activities:				
Depreciation	10,863,580	105,497	10,969,077	2,962,402
Changes in assets and liabilities:				
Accounts receivable	(514,747)	—	(514,747)	—
Inventories	42,030	—	42,030	(11,475)
Accounts payable and accrued liabilities	1,194,840	(17,203)	1,177,637	(690,867)
Deposits	<u>7,887</u>	<u>—</u>	<u>7,887</u>	<u>—</u>
Total adjustments	<u>11,593,590</u>	<u>88,294</u>	<u>11,681,884</u>	<u>2,260,060</u>
Net cash provided by operating activities	\$ <u>38,347,940</u>	\$ <u>170,598</u>	\$ <u>38,518,538</u>	\$ <u>1,333,144</u>

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

Assets	Pension Trust	Agency Funds
Cash and cash equivalents	\$ 1,001,186	1,512,766
Cash and cash equivalents with trustee	16,759,122	-
Securities lending	78,618,934	-
Investments		
Corporate and government bonds	202,559,962	-
Common stock	355,095,659	-
International stock	99,034,470	-
International emerging markets	30,580,447	-
Real estate	37,059,400	-
Accounts receivable	393,319	3,130,438
Interest receivable	1,846,553	-
Dividend receivable	19,485	-
Sales receivable	4,705,205	-
Inventory	-	2,585
Total assets	\$ 827,673,742	4,645,789
Liabilities		
Accounts payable	\$ 2,189,560	223,165
Accrued vacation	55,911	-
Due to other governments	-	2,324,961
Due to other agencies	-	2,097,663
Purchases payable	5,406,262	-
Liabilities under securities lending	78,618,934	-
Total liabilities	86,270,667	4,645,789
Net Assets		
Assets held in trust:		
Postemployment healthcare benefits	12,698,101	-
Employees' retirement	728,704,974	-
Total net assets	741,403,075	-
Total liabilities and net assets	\$ 827,673,742	4,645,789

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds - Pension Trust Employees' Retirement
Year ended June 30, 2006

Additions (decreases):	
Employer Contributions:	
City General Fund	\$ 14,315,917
Waterworks Fund	1,093,655
School Operating Fund	3,750,375
Other Contributions:	
Income from Leave Exchange	1,520,088
Employee Buy-back	791,073
Total contributions	21,471,108
Investment income:	
Net depreciation - bonds	(9,526,764)
Net appreciation - stocks	55,944,605
Interest	9,291,083
Dividends	9,135,262
Real estate operating income, net	6,053,120
Commission recapture	114,305
Total investment gain	71,011,611
Less investment expenses:	
Other investment expenses	(2,968,816)
Net investment gain	68,042,795
Total increase	89,513,903
Deductions:	
Benefits:	
Service	30,758,223
Occupational death	48,982
Nonoccupational death	47,300
Occupational disability	222,507
Nonoccupational disability	515,284
Reversionary annuity	2,102,949
Retirees insurance benefits	11,427,432
Portability transfer	181,143
Total benefits	45,303,820
Administrative expenses:	
Personal services	441,062
Board fees	5,167
Consultant fees	140,000
Actuary fees	138,963
Medical disability exam fees	309
Total administrative expenses	725,501
Total deductions	46,029,321
Net increase	43,484,582
Net assets held in trust for pension benefits at June 30, 2005	697,918,493
Net assets held in trust for pension benefits at June 30, 2006	\$ 741,403,075

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2006

(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 and the Parking Authority serve all the citizens of the City and are 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. These funds are reported as enterprise funds.

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, 27 elementary, seven middle, and five high schools and one elementary-middle 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, 2006

- 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. 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.

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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2006

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.

Additionally, the City reports the following fund types:

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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2006

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. The 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, and providing services to mental health, mental retardation and substance abuse programs, activities of the Community Development Block Grant Program, individual grant programs, and rendering 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.

Nonmajor proprietary fund:

Parking Authority Enterprise Fund accounts for the operation of certain parking facilities within the City.

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 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.

CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2006

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 that 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."

In the fund statements, long-term interfund advances and advances to component units are recorded as a receivable with a corresponding reservation of 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.

CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2006

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 2006 was \$1.24 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 2006 tax rates per \$100 of assessed value were:

Mobile homes	\$1.24
Trawlers	\$0.90
Pleasure boats	\$1.00
Machinery & Tools	\$3.50
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, 2006, is composed of the following:

General Fund –		
Taxes receivable:		
Real Estate	\$	509,217
Personal Property		<u>4,804,479</u>
Total Taxes	\$	<u>5,313,696</u>
Special Revenue Funds –		
Accounts receivable	\$	<u>486,460</u>

(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. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000. Such 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.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2006

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 \$2,238,820 was capitalized during fiscal year 2006.

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, 2006, the City holds capital assets related to school property with a net book value of \$126,016,135.

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	50 - 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.

(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 between \$50

CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
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to \$65 per day depending upon employment status or may be used as a lifetime subsidy (based on number of unused days) for retiree health insurance.

(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

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(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 reservations of fund balances, 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, Investments and Securities Lending

Deposits

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

CITY OF NEWPORT NEWS, VIRGINIA

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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:

<u>Investments</u>	<u>Carrying amount</u>
Cash and deposits:	
Cash on hand	\$ 63,448
Deposits with banks	11,786,102
Total cash and deposits	<u>11,849,550</u>
Investments:	
Local Government Investment Pool (LGIP)	116,089,352
Deposits with banks - Money market accounts	8,231,393
Deposits with banks - Repurchase agreements	4,264,149
Peninsula Airport Commission - Time Deposits	1,138,813
Commonwealth cash reserve	12,594,247
VA SNAP	28,897,914
Common Stock - IDA	22,594
IDA escrow funds	45,841,891
Total deposits and investments	<u>\$ 228,929,903</u>

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

<u>Statements of net assets:</u>	<u>June 30, 2006</u>
Primary Government:	
Cash and cash equivalents	\$ 100,042,899
Restricted cash	36,395,284
Component Units:	
Cash and cash equivalents	28,162,145
Restricted cash	62,816,809
Fiduciary Funds (page 23):	
Cash and cash equivalents - Agency Funds	1,512,766
Total cash and investments	<u>\$ 228,929,903</u>

Investment Policy

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

The City 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.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2006

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, 2006, the carrying value and weighted average maturity of the city’s investments are listed below.

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, 2006, 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.

<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)	\$ 116,089,352	AAAm	N/A
Money Market Mutual Funds - Underlying			
U. S. Agencies	1,186,937	AAA	0.31
U.S. Gov. Bonds	401,037	AAA	0.31
U.S. Gov. Bonds	1,077,593	AAA	0.33
Commercial Paper	705,051	A-1+	0.31
Commercial Paper	689,471	A-1	0.33
Repurchase Agreements	787,091	A-1+	0.33
Money Market Mutuals	383,105	N/A	N/A
Commonwealth Cash Reserve (AIM) - Underlying:			
U.S. Agencies	1,747,918	AAA	0.06
U.S. Agencies	930,232	A-1+	0.06
Money Markets	9,916,097	AAAm	0.06
VA SNAP	28,897,914	AAAm	0.06
Total Deposits and Investments	<u>\$ 162,811,798</u>		

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Notes to Basic Financial Statements
June 30, 2006

Deposits of Pension Fund

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

	<u>Investments</u>	<u>Carrying amount</u>
Investments		
Common and international stocks - not on securities loan		\$ 424,660,510
Corporate & government bonds - not on securities loan		184,984,424
Pension fund real estate trust funds		<u>37,059,400</u>
Total investments		<u>\$ 646,704,334</u>
Cash and deposits		
Deposits with banks		(751,810)
Deposits with banks - Repurchase agreements		1,752,996
Investments on Pension securities loaned, collateralized by cash:		
Common and international stocks		60,050,066
Corporate and government bonds		17,575,538
Securities lending collateral - short-term investment pool		78,618,934
Pension trust fund money markets		<u>16,759,122</u>
Total deposits and investments		<u>\$ 820,709,180</u>

The Pension fund's cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

	<u>Pension</u>	<u>June 30, 2006</u>
Cash and cash equivalents		\$ 1,001,186
Cash and cash equivalents with trustee		16,759,122
Securities lending		78,618,934
Investments		
Corporate and government bonds		202,559,962
Common stock		355,095,658
International stock		99,034,471
International emerging markets		30,580,447
Real estate		<u>37,059,400</u>
Total deposits and investments		<u>\$ 820,709,180</u>

Investment Policy of the Pension Fund

The Pension Trust Fund (the Fund) can be invested in obligations of the U.S. or agencies thereof, obligations of the Commonwealth of Virginia, or political subdivisions thereof, corporate bonds rated 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. Pension Trust Fund investments are subject to restrictions placed by policies of the City Council and the Retirement Board (the Board).

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June 30, 2006

Credit Risk of Pension Fund

The credit risk profile for the Pension Fund securities by investment type as of June 30, 2006 is as follows:

S & P's Ratings as of June 30, 2006

<u>Investment Types</u>		<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>Not Rated</u>
Asset-backed	\$ 1,774,008	1,187,712	-	586,296	-	-
Corporate Bonds	47,163,585	2,989,199	10,907,215	32,461,684	805,487	-
Mortgage-backed	62,035,479	60,590,925	-	-	-	1,444,554
Mutual Funds	113,637,621	-	-	-	-	113,637,621
Real Estate Inv.	739,927	-	-	-	-	739,927
Short-Term	17,719,707	-	-	-	-	17,719,707
U.S. Agencies	42,276,913	42,276,913	-	-	-	-
U.S. Treasury	535,361,940	-	-	-	-	535,361,940
Total	<u>\$ 820,709,180</u>	<u>107,044,749</u>	<u>10,907,215</u>	<u>33,047,980</u>	<u>805,487</u>	<u>668,903,749</u>

Concentration of Credit Risk – Pension Fund

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

Custodial Risk – Pension Fund

The Pension Fund Custodian (State Street Bank) holds investment securities in the Pension's name. Accordingly, the fund is not exposed to custodial credit risk.

Foreign Currency Risk – Pension Fund

The Pension Fund does not have a formal policy to limit foreign currency risk. Risk of loss arises from changes in currency exchange rates. The Pension Fund's exposure to foreign currency risk is as follows:

<u>Investment</u>	<u>Currency</u>	<u>Fair Value</u>
Common stock	Canadian dollar	\$ 230,145
Common stock	Euro currency	12,062,967
Common stock	Japanese yen	5,294,971
Cash equivalent	Japanese yen	29,624
Common stock	New Zealand dollar	182,780
Common stock	Pound sterling	5,309,376
Common stock	Singapore dollar	784,642
Common stock	Swiss franc	1,616,838
Total		<u>\$ 25,511,343</u>

State statutes do not prohibit the Pension Fund from participating in securities lending transactions, and the

CITY OF NEWPORT NEWS, VIRGINIA

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June 30, 2006

Board has, via a Securities Lending Authorization Agreement, authorized State Street Bank and Trust Company (State Street) to lend the Fund's securities to broker-dealers and banks pursuant to a form of loan agreement. Cash collateral received in respect of such loans was invested at the direction of the Board, in the Quality Fund, a pooled external investment vehicle. Please note the following:

- (i) Method for Determining Fair Value: The fair value of investments held by the Quality Fund is based upon valuations provided by a recognized pricing service.
- (ii) Policy for Utilizing Amortized Cost Method: Because the Quality Fund does not meet the requirements of Rule 2a-7 of the Investment Company Act of 1940, State Street has valued the Fund's investments at fair value for reporting purposes.
- (iii) Regulatory Oversight: The Quality Fund is not registered with the Securities and Exchange Commission. State Street, and consequently the investment vehicles it sponsors are subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of the City's position in the Quality Fund is not the same as the value of the Pension Fund shares.
- (iv) Involuntary Participation: There was no involuntary participation in an external investment pool for the fiscal year.
- (v) Income Assignment: No income from one fund was assigned to another fund by State Street during the fiscal year.

During fiscal year 2006, State Street lent, at the direction of the Board, the Fund's securities and received cash (including both U.S. and foreign currency), securities issued or guaranteed by the U. S. Government or its agencies, sovereign debt of foreign countries and irrevocable bank letters of credit as collateral. State Street did not have the ability to pledge or sell collateral securities delivered; therefore, there cannot be a borrower default. Borrowers were required to deliver collateral for each loan in amounts not less than 100% of the market value of the loaned securities.

The Board did not impose any restrictions during the fiscal year on the amount of the loans that State Street made on its behalf. There were no such failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal Year. Moreover, there were no losses during the fiscal year resulting from default of the borrowers or State Street.

During the fiscal year, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in a commingled investment pool. The average duration of such investment pool as of June 30, 2006, was 50.49 days and an average weighted maturity of 174 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2006, the Board had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for the Board as of June 30, 2006, were \$78,618,934 and \$77,625,604, respectively.

CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2006

(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	\$ 4,727,335	-
Personal Property	3,473,651	-
Total taxes receivable, net	8,200,986	-
Accounts receivable	8,964,972	9,577,178
Total receivables, net	<u>\$ 17,165,958</u>	<u>9,577,178</u>

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

	<u>General</u>	<u>Bond Fund</u>	<u>Public Utility</u>	<u>Fiduciary Funds</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:						
Taxes	\$ 13,511,682	-	-	-	-	13,511,682
Accounts	7,568,041	-	9,987,235	3,523,757	1,396,931	22,475,964
Intergovernmental:						
Federal	1,503,461	1,462,400	-	-	809,588	3,775,449
State	14,610,282	-	-	-	3,371,563	17,981,845
Local	-	-	-	-	28,819	28,819
Gross receivables	37,193,466	1,462,400	9,987,235	3,523,757	5,606,901	57,773,759
Less allowance for doubtful accounts	(5,310,696)	-	(410,057)	-	(486,460)	(6,207,213)
Net total receivables	<u>\$ 31,882,770</u>	<u>1,462,400</u>	<u>9,577,178</u>	<u>3,523,757</u>	<u>5,120,441</u>	<u>51,566,546</u>

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 \$6.3 million includes approximately \$5.8 million in property tax deferrals.

CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2006

(4) Capital Assets, Net

Capital asset activity for the year ended June 30, 2006 was as follows:

Primary				Government
	Balance			Balance
	July 1, 2005	Increases	Decreases	June 30, 2006
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 75,473,967	3,975,382	-	79,449,349
Construction in progress	21,821,939	23,284,803	2,932,195	42,174,547
Total capital assets, not being depreciated	<u>97,295,906</u>	<u>27,260,185</u>	<u>2,932,195</u>	<u>121,623,896</u>
Capital assets, being depreciated:				
Buildings	259,235,438	6,263,063	-	265,498,501
Improvements	111,186,060	3,823,151	5,271	115,003,940
Machinery and equipment	97,447,873	12,145,479	1,822,897	107,770,455
Infrastructure	399,361,975	13,740,600	3,664	413,098,911
Total capital assets being depreciated	<u>867,231,346</u>	<u>35,972,293</u>	<u>1,831,832</u>	<u>901,371,807</u>
Less accumulated depreciation for:				
Buildings	62,466,412	4,889,166	-	67,355,578
Improvements	44,048,592	4,320,048	-	48,368,640
Machinery and equipment	62,330,086	6,960,498	1,701,777	67,588,807
Infrastructure	252,594,438	8,472,969	-	261,067,407
Total accumulated depreciation	<u>421,439,528</u>	<u>24,642,681</u>	<u>1,701,777</u>	<u>444,380,432</u>
Total capital assets being depreciated, net	<u>445,791,818</u>	<u>11,329,612</u>	<u>130,055</u>	<u>456,991,375</u>
Capital assets, net	<u>\$ 543,087,724</u>	<u>38,589,797</u>	<u>3,062,250</u>	<u>578,615,271</u>

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

General Government	\$ 2,717,670
Judicial Administration	407,802
Public Safety	2,225,999
Public Works	8,859,003
Health and Welfare	180,159
Education	3,080,510
Parks, Recreation and Culture	3,432,999
Community Development	739,395
Non-departmental	36,741
Internal Service Fund	2,962,402
	<u>\$ 24,642,680</u>

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2006

Construction in progress for the City at June 30, 2006 is composed of the following project authorizations (in millions):

	Project Authorization	Expended as of June 30, 2006	Balance of Authorization	Future Requirements
General Government	\$ 50.0	17.3	32.7	17.0
Parks and Recreation	13.8	7.1	6.7	1.6
Economic Development and Urban Renewal	27.0	6.3	20.7	3.5
Public Schools	28.8	11.6	17.2	10.0
Totals	<u>\$ 119.6</u>	<u>42.3</u>	<u>77.3</u>	<u>32.1</u>

In addition, the City had commitments of approximately \$19.0 million relating to infrastructure at June 30, 2006.

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 6,539,545	171,573	535,000	6,176,118
Construction in progress, restated	121,688,313	8,872,900	89,757,421	40,803,792
Total capital assets, not being depreciated	<u>128,227,858</u>	<u>9,044,473</u>	<u>90,292,421</u>	<u>46,979,910</u>
Capital assets, being depreciated:				
Buildings	16,228,526	29,071	-	16,257,597
Improvements	3,532,823	-	-	3,532,823
Water system	375,701,813	95,630,641	465,631	470,866,823
Machinery and equipment	16,979,897	1,277,301	45,957	18,211,241
Total capital assets being depreciated	<u>412,443,059</u>	<u>96,937,013</u>	<u>511,588</u>	<u>508,868,484</u>
Less accumulated depreciation for:				
Buildings	1,229,634	333,646	-	1,563,280
Improvements	1,855,313	104,997	-	1,960,310
Water system	118,335,525	8,998,997	382,867	126,951,655
Machinery and equipment	11,422,758	1,531,437	45,957	12,908,238
Total accumulated depreciation	<u>132,843,230</u>	<u>10,969,077</u>	<u>428,824</u>	<u>143,383,483</u>
Total capital assets being depreciated, net	<u>279,599,829</u>	<u>85,967,936</u>	<u>82,764</u>	<u>365,485,001</u>
Capital assets, net	\$ <u>407,827,687</u>	<u>95,012,409</u>	<u>90,375,185</u>	<u>412,464,911</u>

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2006

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

Water	\$	10,863,580
Parking		<u>105,497</u>
Total	\$	<u><u>10,969,077</u></u>

	<u>Balance</u> <u>July 1, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2006</u>
Public Utility:				
Capital assets, not being depreciated:				
Land	\$ 5,807,698	171,573	535,000	5,444,271
Construction in progress	<u>121,665,973</u>	<u>8,869,880</u>	<u>89,757,421</u>	<u>40,778,432</u>
Total capital assets, not being depreciated	<u>127,473,671</u>	<u>9,041,453</u>	<u>90,292,421</u>	<u>46,222,703</u>
Capital assets, being depreciated:				
Buildings	16,228,526	29,071	-	16,257,597
Improvements	375,701,813	95,630,641	465,631	470,866,823
Machinery and equipment	<u>16,950,003</u>	<u>1,277,301</u>	<u>40,063</u>	<u>18,187,241</u>
Total capital assets being depreciated	<u>408,880,342</u>	<u>96,937,013</u>	<u>505,694</u>	<u>505,311,661</u>
Less accumulated depreciation for:				
Buildings	1,193,365	333,646	-	1,527,011
Improvements	118,335,522	8,998,997	382,867	126,951,652
Machinery and equipment	<u>11,401,225</u>	<u>1,530,937</u>	<u>40,063</u>	<u>12,892,099</u>
Total accumulated depreciation	<u>130,930,112</u>	<u>10,863,580</u>	<u>422,930</u>	<u>141,370,762</u>
Total capital assets being depreciated, net	<u>277,950,230</u>	<u>86,073,433</u>	<u>82,764</u>	<u>363,940,899</u>
Capital assets, net	\$ <u><u>405,423,901</u></u>	<u><u>95,114,886</u></u>	<u><u>90,375,185</u></u>	<u><u>410,163,602</u></u>

CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2006

Discretely Presented Component Units

	<u>Balance</u> <u>July 1, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2006</u>
Public Schools:				
Capital assets, not being depreciated:				
Land	\$ 2,505,084	-	-	2,505,084
Construction in progress	121,151	11,288	-	132,439
Total capital assets, not being depreciated	<u>2,626,235</u>	<u>11,288</u>	<u>-</u>	<u>2,637,523</u>
Capital assets, being depreciated:				
Buildings	51,397,821	-	-	51,397,821
Improvements	30,816,017	1,819,877	-	32,635,894
Machinery and equipment	79,804,457	11,267,145	7,390,637	83,680,965
Total capital assets being depreciated	<u>162,018,295</u>	<u>13,087,022</u>	<u>7,390,637</u>	<u>167,714,680</u>
Less accumulated depreciation for:				
Buildings	22,149,891	889,476	-	23,039,367
Improvements	5,317,140	1,227,373	-	6,544,513
Machinery and equipment	47,977,157	12,298,302	6,033,436	54,242,023
Total accumulated depreciation	<u>75,444,188</u>	<u>14,415,151</u>	<u>6,033,436</u>	<u>83,825,903</u>
Total capital assets being depreciated, net	<u>86,574,107</u>	<u>(1,328,129)</u>	<u>1,357,201</u>	<u>83,888,777</u>
Capital assets, net	<u>\$ 89,200,342</u>	<u>(1,316,841)</u>	<u>1,357,201</u>	<u>86,526,300</u>

Depreciation of \$14,415,152 was charged to the Public School's governmental functions.

Construction in progress for the Public Schools at June 30, 2006 is composed of project authorizations of \$13,655,012, amounts expended through June 30, 2006 of \$132,439 with a remaining balance of \$13,522,573.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2006

	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2006</u>
E/IDA:				
Capital assets, not being depreciated -				
Construction in progress	\$ 12,064,704	28,866,782	457,187	40,474,299
Capital assets, being depreciated:				
Buildings	99,102,130	-	-	99,102,130
Improvements	9,931,878	335,371	-	10,267,249
Infrastructure	1,521,049	-	-	1,521,049
Machinery and equipment	96,674	-	-	96,674
Total capital assets being depreciated	<u>110,651,731</u>	<u>335,371</u>	<u>-</u>	<u>110,987,102</u>
Less accumulated depreciation for:				
Buildings	11,066,493	2,182,291	-	13,248,784
Improvements	1,948,482	276,942	-	2,225,424
Infrastructure	46,645	46,645	-	93,290
Machinery and equipment	81,674	3,750	-	85,424
Total accumulated depreciation	<u>13,143,294</u>	<u>2,509,628</u>	<u>-</u>	<u>15,652,922</u>
Total capital assets being depreciated, net	<u>97,508,437</u>	<u>(2,174,257)</u>	<u>-</u>	<u>95,334,180</u>
Capital assets, net	\$ <u>109,573,141</u>	<u>26,692,525</u>	<u>457,187</u>	<u>135,808,479</u>

	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2006</u>
PAC:				
Capital assets, not being depreciated -				
Land	\$ 5,712,070	-	-	5,712,070
Construction in progress	7,336,734	6,942,575	7,222,254	7,057,055
Total capital assets not being depreciated	<u>13,048,804</u>	<u>6,942,575</u>	<u>7,222,254</u>	<u>12,769,125</u>
Capital assets, being depreciated:				
Airfield	53,378,381	4,287,317	-	57,665,698
Terminal	35,009,799	2,679,973	-	37,689,772
Other	3,177,567	126,880	-	3,304,447
Machinery and equipment	2,031,344	-	-	2,031,344
Total capital assets being depreciated	<u>93,597,091</u>	<u>7,094,170</u>	<u>-</u>	<u>100,691,261</u>
Less accumulated depreciation for:				
Airfield	20,968,010	2,116,106	-	23,084,116
Terminal	12,921,996	1,066,987	-	13,988,983
Other	2,290,929	110,285	-	2,401,214
Machinery and equipment	1,990,848	19,527	-	2,010,375
Total accumulated depreciation	<u>38,171,783</u>	<u>3,312,905</u>	<u>-</u>	<u>41,484,688</u>
Total capital assets being depreciated, net	<u>55,425,308</u>	<u>3,781,265</u>	<u>-</u>	<u>59,206,573</u>
Capital assets, net	\$ <u>68,474,112</u>	<u>10,723,840</u>	<u>7,222,254</u>	<u>71,975,698</u>

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CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2006

(5) Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2006, is as follows:

Due to / from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor Gov. fund: Community Dev.	\$ 29,399
General fund	Nonmajor Gov. fund: Waste Water	225,865
General fund	Nonmajor Gov. fund: Comprehensive Services Act	937,346
		<u>\$ 1,192,610</u>

All interfund balances resulted 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	\$ 16,929,071
Newport News Public Schools	City of Newport News	33,765

The IDA Payable of \$16,929,071 represents the outstanding balance of the City's financing of the Applied Research Center (ARC). The repayment includes interest at 3.729%. Annual payments represent net revenues from the ARC.

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

	<u>Transfers to Other Funds</u>	<u>Transfers From Other Funds</u>
	<u>Operating</u>	<u>Operating</u>
General Fund	\$ 37,250,800	9,134,000
Debt Service Fund	598,749	32,310,688
Bond Fund	-	598,749
Nonmajor governmental funds	4,979,150	9,919,262
Public Utility	9,134,000	-
Total interfund transfers	<u>\$ 51,962,699</u>	<u>51,962,699</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, 2006

(6) Lease Agreements

(a) Capital Lease Payments – Primary Government

The City has entered into a lease agreements through 2017 to finance the acquisition of equipment and a parcel of land. These leases are accounted for as capital leases and recorded at the present value of the future minimum lease payments at the date of inception. The cost of equipment and land for these capital leases are \$387,740 and \$3,115,000, respectively and are included in capital assets. The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006 were as follows:

Years ending June 30:

<u>Equipment</u>		<u>Land Parcel</u>	
2007	\$ 93,996	2007	\$ 270,811
2008	93,996	2008	270,811
2009	<u>54,811</u>	2009	270,811
Total	242,803	2010	270,811
Less Interest	<u>23,658</u>	2011	270,811
Present Value	<u><u>\$ 219,145</u></u>	2012 - 2016	1,354,055
		2017	<u>270,811</u>
		Total	\$ 2,978,921
		Less Interest	<u>802,062</u>
		Present Value	<u><u>\$ 2,176,859</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 assets acquired through capital leases are as follows:

Buildings	\$ 1,435,000
Machinery and equipment	4,412,510
Less accumulated depreciation	<u>(2,977,347)</u>
Net assets acquired through capital leases	<u><u>\$ 2,870,163</u></u>

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2006

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006, were as follows:

Years ending June 30:		
2007		\$ 1,163,847
2008		450,138
2009		418,824
2010		124,811
2011		119,763
2012 - 2016		523,142
2017 - 2021		306,748
Total minimum lease payments		\$ <u>3,107,273</u>
Less amounts representing interest		<u>(573,543)</u>
Present value of minimum capital lease payments		\$ <u><u>2,533,730</u></u>

(c) Operating Lease Payments – Component Units

The School Board leases machinery, equipment and buildings under noncancelable operating leases.

The Authorities lease land and property in Newport News. Original lease terms ranged from one to five years.

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

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

	<u>Newport News Public Schools</u>	<u>Economic and Industrial Development Authorities</u>	<u>Peninsula Airport Commission</u>
Years ending June 30:			
2007	\$ 249,843	361,769	21,627
2008	257,338	362,552	19,908
2009	265,058	363,342	19,908
2010	273,010	364,141	14,931
2011	281,200	246,822	—
2012-2016	—	334,014	—
	\$ <u>1,326,449</u>	<u>2,032,640</u>	<u>76,374</u>

CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2006

(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 the Authorities' investment in property in operating leases:

Land	\$	2,652,960
Buildings		86,636,389
Less accumulated depreciation		<u>(12,625,495)</u>
Net investment in property held for lease	\$	<u><u>76,663,854</u></u>

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

Minimum future rental income on operating leases as of June 30, 2006 is as follows:

	E/IDA	PAC
Year ending June 30:		
2007	\$ 8,893,312	1,753,623
2008	7,007,638	1,759,087
2009	6,825,574	1,810,625
2010	6,254,057	1,859,463
2011	6,111,723	162,463
2012-2016	29,071,539	1,868,951
2017-2021	17,077,285	—
2022-2026	6,835,074	—
2027-2030	<u>3,684,147</u>	<u>—</u>
Total	<u>\$ 91,760,349</u>	<u><u>9,214,212</u></u>

Rental income on operating leases for year ended 2006 was \$7,546,539 and 1,769,710 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, 2006:

CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2006

Minimum lease payments to be received	\$	20,108,985
Less unearned income		<u>(4,014,446)</u>
Net investment in direct financing leases	\$	<u><u>16,094,539</u></u>

Minimum future rental income on these direct financing leases as of June 30, 2006 are as follows:

Year ending June 30:		
2007	\$	1,938,349
2008		1,938,349
2009		1,938,349
2010		1,938,349
2011		1,938,349
2012-2016		8,799,038
2017-2020		<u>1,618,202</u>
Total	\$	<u><u>20,108,985</u></u>

(7) Long-Term Liabilities

- (a) A summary of changes in long-term liabilities for governmental activities for the year ended June 30, 2006 follows:

		<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Due within</u> <u>one year</u>
Bonds payable:						
General obligation bonds	\$	394,353,545	65,892,991	(59,226,837)	401,019,699	34,247,302
Deferred amounts:						
Add bonds premiums		15,004,640	3,115,756	(2,589,558)	15,530,838	2,363,614
Net loss on refunded bonds		<u>(9,684,906)</u>	<u>(1,792,569)</u>	<u>1,147,710</u>	<u>(10,329,765)</u>	<u>(1,264,506)</u>
Total bonds payable		<u>399,673,279</u>	<u>67,216,178</u>	<u>(60,668,685)</u>	<u>406,220,772</u>	<u>35,346,410</u>
Literary loan bonds		3,564,082	—	(669,249)	2,894,833	654,249
Capital leases payable		292,789	—	(73,644)	219,145	72,756
Land lease payable		2,312,606	—	(135,747)	2,176,859	144,120
Landfill liability		6,501,000	—	(169,000)	6,332,000	177,000
Accrued vacation		18,759,822	12,283,371	(11,273,725)	19,769,468	11,721,654
Net pension obligation		32,245,000	42,089,000	(19,160,000)	55,174,000	—
Workers' compensation and other claims		11,618,928	3,818,769	(3,658,228)	11,779,469	3,300,000
Incurred but not reported claims		<u>2,800,000</u>	<u>24,933,697</u>	<u>(25,041,697)</u>	<u>2,692,000</u>	<u>2,692,000</u>
Total long-term liabilities	\$	<u><u>477,767,506</u></u>	<u><u>150,341,015</u></u>	<u><u>(120,849,975)</u></u>	<u><u>507,258,546</u></u>	<u><u>54,108,189</u></u>

The beginning accrued vacation liability has been increased \$224,487 for the prior year due to a reclassification of internal service fund liabilities from current to long-term.

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

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2006

General obligation bonds of \$46.7 million are authorized but unissued.

On August 24, 2005, the City received a loan of \$3,400,000 from the Virginia Revolving Authority (VRA). This loan will be paid over twenty years at an annual interest rate of 3.0%. The loan will be used to finance the replacement and rehabilitation of sanitary sewers and related improvements throughout the City. Through June 30, 2006, \$2,346,812 has been drawn against the loan.

In February 2006, the City issued \$34,285,000 of general improvement bonds Series 06A with a true interest cost of 4.29%. The net proceeds of \$35,269,936 (after \$269,936 for underwriting fees and other issuance cost) were used to pay the cost of various capital improvement projects.

In February 2006, the City issued \$28,020,000 of general improvement refunding bonds Series 06B with a true interest rate of 3.9%. The proceeds of the sale, exclusive of the accrued interest and costs of issuance, was applied to the refunding of \$23,140,000 outstanding principal amount of the City's 1998A series, \$5,600,000 outstanding principal amount of the City's 1999B series with interest rates of 3.9% and 4.0% respectively. The net proceeds of \$30,532,568 (after a payment of \$217,001 for underwriting fees and other issuance costs) were invested in Government Obligations with an escrow agent to provide for all future debt service payments on the refunded bonds. The City is undertaking the refunding in order to reduce its annual debt service expenditures. As a result, the refunded bonds are considered to be defeased and the liabilities have been removed from the governmental activities column of the statement of net assets. On June 30, 2006, \$15,965,000 remain outstanding. This advance refunding resulted in economic gains of \$782,018 (1998A) and \$215,764 (1999B). This issuance resulted in a cash flow savings of \$1,419,361.

At June 30, 2006, approximately \$89.0 million of general obligation bonds are considered defeased because refunding trusts have been established to pay for them.

Landfill Liability: The City closed its Denbigh landfill site on June 30, 1996. 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 \$6.3 million liability at June 30, 2006 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 2006. Actual costs may be higher due to inflation, technology changes or regulation changes.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2006

Outstanding general obligation bonds at June 30, 2006, 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, 2006
VPSA 91	07/15/91	07/15/11	6.4%	\$ 1,431,799
VRA 93D	09/17/93	06/01/15	4.5%	500,022
VRA 94A	06/02/94	01/01/16	4.5%	2,516,602
Series 95A	06/15/95	07/01/06	5.5%	2,485,000
VMPL 95C	09/28/95	07/15/14	4.3%	5,337,565
VPSA 95C	12/01/95	07/15/15	5.2%	3,256,444
Series 96A	01/15/96	01/15/07	5.2%	595,000
VRA 96C	01/24/96	10/01/16	4.8%	1,866,023
Series 96D	12/01/96	01/15/08	5.4%	2,670,000
VRA 97A	01/30/97	10/01/17	4.8%	1,932,464
VRA 98A	01/22/98	10/01/17	4.8%	1,561,443
Series 98A	03/01/98	03/01/18	4.0%	3,365,000
Series 98C	12/01/98	12/01/09	4.2%	2,105,000
Series 99A	04/01/99	07/01/07	4.1%	4,980,000
VRA 99A	03/09/99	12/01/19	4.3%	2,094,865
Series 99B	03/01/99	03/01/19	4.6%	12,600,000
VRA 00A	03/01/00	03/01/21	3.5%	2,261,635
Series 00A	05/01/00	05/01/10	5.6%	5,080,000
VPSA 00B	11/16/00	07/15/21	5.2%	4,575,120
VRA 01A	04/24/01	05/01/22	4.1%	1,830,047
Series 01A	09/15/01	09/15/21	4.3%	20,000,000
VRA 02A	05/15/02	01/01/23	3.8%	2,416,427
Series 02A	09/26/02	07/01/22	3.5%	23,800,000
Series 02B	09/26/02	07/01/16	3.4%	57,180,000
Series 03A	03/01/03	06/01/12	3.6%	10,165,000
Series 03B	06/03/03	11/01/23	3.8%	24,300,000
VRA 03A	06/24/03	06/01/24	3.5%	2,935,142
Series 03C	07/15/03	11/01/09	5.0%	22,675,000
QZAB 03A	12/31/03	12/28/18	3.5%	1,090,819
QZAB 03B	12/31/03	12/28/18	3.5%	1,351,675
Series 04A	03/01/04	07/15/24	5.0%	23,750,000
Series 04B	03/01/04	01/15/18	4.5%	30,445,000
Series 04C	03/01/04	05/01/20	5.0%	10,095,000
VRA 04A	06/30/04	09/01/25	3.5%	2,859,795
Series 04D	12/01/04	12/01/24	5.0%	27,710,000
Series 05A	02/01/05	01/15/15	4.0%	12,550,000
VRA 05A	08/24/05	09/01/26	3.5%	2,346,812
Series 06A	02/16/06	02/01/26	4.0%	34,285,000
Series 06B	02/16/06	02/01/26	4.0%	28,020,000
Totals				<u>\$ 401,019,699</u>

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2006

Outstanding literary loan funds at June 30, 2006 of the Primary government governmental activities are comprised of the following issues:

Project	Bond Date	Final Maturity Date	Effective Interest Rate (at issue)	Balance June 30, 2006
Greenwood Elementary	12/01/86	12/01/06	3%	\$ 100,000
Menchville High	12/15/86	12/15/06	3%	48,000
New Horizons Tech	07/01/87	07/01/07	3%	100,000
Watkins Elementary	07/01/89	07/01/09	3%	400,000
Ferguson High	03/01/90	03/01/10	4%	200,000
Huntington Middle	03/01/90	03/01/10	4%	142,000
Hiddenwood Elementary	04/01/90	04/01/10	4%	40,000
Denbigh High	10/01/89	10/01/09	3%	321,962
Gildersleeve Middle	03/01/91	03/01/11	3%	500,000
Warwick High	09/01/99	09/01/19	2%	128,800
Menchville High-2	10/01/00	10/01/20	2%	187,500
Denbigh High-2	08/01/01	08/01/21	2%	196,251
Crittenden Middle	08/15/01	08/15/06	2%	15,000
Gildersleeve Middle-2	08/15/01	08/15/21	2%	100,000
Dozier Middle	08/15/01	08/15/21	2%	100,000
Reservoir Middle	05/1/02	05/1/22	2%	100,000
Hines Middle	05/1/02	05/1/22	2%	100,000
Huntington Middle-2	09/1/02	09/1/22	2%	115,320
Totals				\$ 2,894,833

The following table summarizes future debt service requirements as of June 30, 2006:

Fiscal year ending June 30:	General Obligation Bonds		Literary Loans	
	Principal	Interest	Principal	Interest
2007	\$ 34,247,302	18,634,958	\$ 654,249	80,236
2008	35,379,094	17,430,399	491,249	60,462
2009	36,493,331	15,955,292	441,249	45,426
2010	30,797,002	14,445,112	443,211	31,891
2011	27,834,664	13,184,258	165,749	18,298
2012 - 2016	129,789,957	46,330,658	328,720	56,762
2017 - 2021	72,574,139	16,702,158	319,570	23,888
2022 - 2026	33,904,210	2,012,684	50,836	1,152
Total future debt service	\$ 401,019,699	144,695,519	\$ 2,894,833	318,115

CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2006

Business-Type Activities

In conjunction with the refinancing of general obligation bonds in February 2006, Public Utilities issued \$7,555,000 of water refunding bonds Series 06B with a true interest rate of 4.0%. The proceeds of the sale, exclusive of the accrued interest and costs of issuance, was applied to the refunding of \$7,980,000 outstanding principal amount of Public Utilities series 1999B with an interest rate 4.0%. The net proceeds of \$8,530,938 were invested in Government Obligations with an escrow agent to provide for all future debt service payments on the refunded bonds. Public Utilities is undertaking the refunding in order to reduce its annual debt service expenditures. As a result, the refunded bonds are considered to be defeased and the liabilities have been removed from the governmental activities column of the statement of net assets. On June 30, 2006, \$12,975,000 remain outstanding. This advance refunding resulted in economic gains of \$308,275. This issuance resulted in a cash flow savings of \$500,513.

A summary of changes in long-term liabilities for business-type activities for the year ended June 30, 2006 follows:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Due within</u> <u>one year</u>
Bonds payable:					
General obligation bonds	\$ 165,220,000	22,555,000	21,300,000	166,475,000	10,510,000
Deferred amounts:					
Add bond premiums	7,021,198	1,220,720	745,049	7,496,869	745,000
Total bonds payable	<u>\$ 172,241,198</u>	<u>23,775,720</u>	<u>22,045,049</u>	<u>173,971,869</u>	<u>11,255,000</u>

Outstanding public utility bonds at June 30, 2006 are comprised of the following issues:

<u>Public Utility</u> <u>Bond Series</u>	<u>Issue</u> <u>Date</u>	<u>Final Maturity</u> <u>Date</u>	<u>Interest Rate</u> <u>(At Issue)</u>	<u>Balance</u> <u>June 30, 2006</u>
Series 96E	12/01/96	01/15/17	5.4%	2,670,000
Series 98B	03/01/98	03/01/12	4.0%	13,460,000
Series 99A	04/01/99	07/01/07	4.5%	2,410,000
Series 99B	03/01/99	03/01/19	4.7%	12,975,000
Series 00A	05/01/00	05/01/20	5.6%	5,060,000
Series 01C	08/15/01	08/15/21	4.3%	30,705,000
Series 02A	09/26/02	07/01/22	4.3%	19,405,000
Series 02B	09/26/02	07/01/16	3.5%	9,905,000
Series 03B	06/03/03	06/30/24	4.1%	8,895,000
Series 03C	07/15/03	11/01/08	2.3%	2,235,000
Series 04B	06/05/03	01/15/18	3.6%	16,200,000
Series 04C	06/06/03	05/01/20	3.9%	20,000,000
Series 06A	02/15/06	02/01/26	4.3%	15,000,000
Series 06B	02/15/06	02/01/19	4.3%	7,555,000
Totals				<u>\$ 166,475,000</u>

Public utility bonds of \$40.0 million are authorized but unissued.

CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2006

The following table summarizes future debt service requirements of Business-type Activities as of June 30, 2006.

Fiscal year ending June 30:	<u>Principal</u>	<u>Interest</u>
2007	\$ 10,510,000	7,597,028
2008	11,575,000	7,172,094
2009	10,875,000	6,680,925
2010	11,030,000	6,204,813
2011	11,580,000	5,725,073
2012-2016	54,780,000	20,851,723
2017-2021	43,130,000	8,221,554
2022-2026	12,995,000	1,054,990
Totals	<u>\$ 166,475,000</u>	<u>63,508,200</u>

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, 2006 follows:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Due within</u> <u>one year</u>
Compensated absences	\$ 3,634,503	1,256,721	1,357,107	3,534,117	504,874
Workers' compensation claims	1,586,267	585,868	568,963	1,603,172	374,083
Capital leases payable	3,525,721	—	991,991	2,533,730	1,034,999
Capital facilities notes payable	22,792,600	—	1,672,419	21,120,181	1,559,737
Incurred but not reported claims	2,025,800	21,637,395	21,827,695	1,835,500	1,835,500
Totals	<u>\$ 33,564,891</u>	<u>23,479,984</u>	<u>26,418,175</u>	<u>30,626,700</u>	<u>5,309,193</u>

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.

CITY OF NEWPORT NEWS, VIRGINIA
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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 solely 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 \$37.5 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.

The E/IDA bonds and Notes at June 30, 2006 are comprised of the following:

	<u>Issue date</u>	<u>Maturity date</u>	<u>Eff Int rates</u>	<u>Balance 7/1/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/06</u>	<u>Ant due in one year</u>
Bonds payable:								
UPS, 04	06/04/04	07/01/15	5.58%	7,422,588	—	568,423	6,854,165	601,428
MCI, 95A*	12/28/95	04/01/06	6.35%	346,497	—	346,497	—	—
MCI, 95B*	12/28/95	04/01/06	6.65%	6,714	—	6,714	—	—
OPTON *	03/01/96	08/01/16	6.15%	1,831,877	—	1,831,877	—	—
EDA-NNS, 96*	03/22/96	07/15/06	7.00%	1,264,017	—	1,158,855	105,162	105,162
ICELAND*	04/10/97	10/01/17	4.10%	7,146,667	—	400,000	6,746,667	400,000
CTII, 97A*	04/29/97	08/01/22	7.28%	3,760,927	—	115,177	3,645,750	123,932
CTII, 97B*	04/29/97	08/01/22	6.20%	829,028	—	28,162	800,866	29,978
SEARS*	03/01/98	10/01/18	6.48%	10,584,341	—	518,679	10,065,662	553,801
VSS*	03/01/98	10/01/18	6.48%	9,602,411	—	470,560	9,131,851	502,424
Coats and Clarke	01/01/99	12/01/18	4.24%	1,371,446	—	97,960	1,273,486	97,961
Hiddenwood Center	03/30/00	04/01/20	8.78%	1,071,483	—	73,366	998,117	73,366
Downtown Engineering	04/05/00	07/01/31	7.64%	26,380,000	—	1,060,000	25,320,000	1,060,000
VASCIC	07/27/00	09/30/10	4.54%	27,100,000	—	3,940,000	23,160,000	4,150,000
OPTC Merchant's Walk	08/24/01	08/01/26	4.52%	12,300,000	—	560,000	11,740,000	560,000
HRSD - Bond A	04/29/03	07/01/08	2.64%	2,190,958	—	—	2,190,958	—
HRSD - Bond B	04/29/03	07/01/08	2.45%	2,325,880	—	—	2,325,880	—
Port Warwick/Light Rail	10/01/02	09/30/05	2.70%	323,470	—	323,470	—	—
PrintPack	08/15/03	09/01/18	3.61%	4,740,000	—	360,000	4,380,000	360,000
City Ops Center	12/07/04	07/01/26	2.25%	2,160,000	—	—	2,160,000	—
Fountain Way Garage	12/07/04	07/01/31	3.40%	16,685,000	—	—	16,685,000	—
Conference Center	12/07/04	07/01/31	3.40%	8,585,000	—	—	8,585,000	—
Hotl Cap Loan	12/07/04	07/01/31	3.40%	4,065,000	—	—	4,065,000	—
Rouse Project	12/07/04	01/15/31	5.14%	—	16,850,000	—	16,850,000	315,000
Third Garage	12/07/04	01/15/31	5.14%	—	16,150,000	—	16,150,000	670,000
Conf Center	06/30/06	.	4.00%	—	18,900,000	—	18,900,000	—
Totals				152,093,304	51,900,000	11,859,740	192,133,564	9,603,052
Premium on Bonds Payable				—	995,414	—	995,414	39,817
Discount on Bonds Payable				(106,972)	—	4,114	(102,858)	4,114
Total bonds and notes payable				\$ 151,986,332	52,895,414	11,855,626	193,026,120	9,646,983

*Moral obligation of the City.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

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Conduit Debt Obligations: From time to time the E/IDA have 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 11 series of the Bonds outstanding, with an aggregate principal amount payable of approximately \$39 million. Approximately \$0.3 million of the Bonds and Notes are considered a moral obligation of the City.

Interest Rate Swap Agreement: On April 6, 2000, the EDA entered into an interest rate swap agreement, a derivative instrument, with First Union National Bank, N.A. (First Union) whereby the EDA agreed to pay First Union a 7.64% fixed rate of interest on the EDA 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 EDA 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 EDA making or receiving a termination payment.

In connection with the 2004 United Parcel Service, Inc. Bond refinancing initiative, the IDA entered into an interest rate swap on April 4, 2004 with the Bank of America, N.A., whereby the IDA agreed to pay Bank of America a 5.58% fixed rate of interest on the IDA Taxable Industrial Development Revenue and Refunding Bond, Series 2004 (United Parcel Service, Inc. Project) in the amount of \$8,046,278 in exchange for the floating rate.

CITY OF NEWPORT NEWS, VIRGINIA
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June 30, 2006

The PAC Airport Improvement Revenue Bonds at June 30, 2006, are comprised of the following:

Series	Issue Date	Maturity Date	Eff. Int. Rate (%)	Balance July 1, 2005	Reductions	Balance June 30, 2006
2001	04/15/01	07/16/21	5.05-5.5	\$ 6,030,000	230,000	5,800,000
2002	07/03/02	07/01/27	4.5	2,325,281	63,494	2,261,787
2005A	12/15/05	01/15/32	4.3	7,000,000	—	7,000,000
2005B	12/15/05	01/15/32	5.8	3,000,000	—	3,000,000
Totals				<u>\$ 18,355,281</u>	<u>293,494</u>	<u>18,061,787</u>

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

	E/IDA		PAC	
	Principal	Interest	Principal	Interest
Fiscal year ending June 30:				
2007	\$ 9,603,053	9,046,248	389,772	862,609
2008	16,541,609	8,872,848	538,349	839,228
2009	12,435,697	8,447,370	562,000	812,699
2010	12,849,263	8,011,951	591,309	801,418
2011	13,369,902	7,563,772	621,306	771,589
2012-2016	43,233,518	30,545,069	3,623,082	3,369,690
2017-2021	33,841,339	18,914,408	4,658,009	2,359,427
2022-2026	25,724,183	10,671,094	3,566,730	1,244,013
2027-2031	22,525,000	3,517,723	3,117,850	474,014
2032	2,010,000	46,178	393,380	6,320
Total	<u>\$ 192,133,564</u>	<u>105,636,661</u>	<u>18,061,787</u>	<u>11,541,007</u>

CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2006

(8) Defined Benefit Retirement Plans

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

1. Plan Description

The 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. 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.

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 NNERF, 2400 Washington Avenue, Newport News, VA 23607.

All full-time regular employees are members of this fund. For the year ended June 30, 2006, the total payroll of the City was approximately \$317.8 million, with approximately \$298.9 million covered by NNERF. At June 30, 2006, NNERF membership consisted of:

	<u>Retirees and beneficiaries</u>	<u>Vested terminated employees</u>	<u>Active employees vested</u>	<u>Non-vested</u>	<u>Total</u>
City general	715	557	1,235	644	3,151
City police and fire	502	186	595	282	1,565
Public utilities	169	97	277	66	609
School VRS	1,666	851	2,006	1,481	6,004
School Non-VRS	573	115	647	484	1,819
Total	<u>3,625</u>	<u>1,806</u>	<u>4,760</u>	<u>2,957</u>	<u>13,148</u>

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 final average salary for each year of credited service. Final average salary means the average rate of salary received during the highest paid 36 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.

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 significant investments (other than U.S. Government and U.S. Government-guaranteed obligations) in any one organization that represents 5% or more of net assets available for benefits.

CITY OF NEWPORT NEWS, VIRGINIA
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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 \$19,159,947 were made by the employer during the year ended June 30, 2006. The percentage of employer contributions to current year covered payroll was 0.73% for employees covered by VRS and 5.68% for all others.

The percentage of normal cost to current year covered payroll was 6.41%. The employer's annual pension cost and net pension obligation to NNERF for 2006 were as follows:

(000's Omitted)

Annual Required Contribution (ARC)	\$	42,214
Interest on net pension obligation		2,580
Adjustment to ARC		(2,704)
Annual pension cost		42,090
Contributions made		(19,160)
Increase in net pension obligation		22,930
Net pension obligation (asset), beginning of year		32,244
Net pension obligation (asset), end of year	\$	55,174

The annual required contribution for the current year was determined as part of the June 30, 2006 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8.0% investment rate of return (net of administrative expenses) (b) projected salary increase of 5.25% per year and (c) 3.0% per year cost-of-living adjustments. All assumptions include an inflation component of 3.0%. The assumptions did not include funding of post-retirement benefit. Actuarial assumptions have been changed to reflect the actuarial experience analysis for the period July 1, 1998 to June 30, 2003. The actuarial value of assets was determined under the average value method.

CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2006

4. Three-Year Trend Information

(000's Omitted)

<u>Fiscal year ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension obligation (asset)</u>
June 30, 2006	\$ 42,089	45.0%	\$ 55,174
June 30, 2005	35,421	38.4%	32,245
June 30, 2004	27,846	44.1%	10,453

(b) Newport News School System (NNS) and Peninsula Airport Commission (PAC)

1. Plan Description

The NNS 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.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service (age 60 for participating law enforcement officers and firefighters) and at 50 with 30 years of service for participating employees (age 50 with 25 years for participating law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7% of their average final contribution (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustments (COLA) beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of salary. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. 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 state legislature.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing the System 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% of their annual reported compensation to the VRS. This 5% member contribution has been assumed by the employer. In addition, the NNS and the PAC are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial bases specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The contribution rates for the fiscal year ended 2006 were 11.62% and 5.0% of covered annual payroll for the NNS and the PAC, respectively.

CITY OF NEWPORT NEWS, VIRGINIA
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3. Annual Pension Cost

For 2006, the annual pension cost of \$17,188,757 and \$78,575 for the NNSS and the PAC, respectively, was equal to the required and actual contributions. The annual required contributions were determined as part of the June 30, 2005 actuarial valuation. The actuarial assumptions included (a) a rate of return on investment of 7.5% to 8%, (b) projected salary increases ranging from 3.5% to 5.73% per year, and (c) cost-of-living adjustments of 2.5% to 3%. Both (a) and (b) included an inflation component of 2.5% to 3%. The actuarial values of the respective entities' assets are equal to the modified market value of the assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The NNSS' and the PAC's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 30 years or less.

4. Three-Year Trend Information

	Fiscal year ending	Pension Cost (APC)	Percentage of APC contributed	Net pension obligation
NNSS	06/30/06	\$ 17,188,757	100.0%	-
	06/30/05	15,805,364	100.0%	-
	06/30/04	12,204,566	100.0%	-
PAC	06/30/06	81,229	100.0%	-
	06/30/05	78,575	100.0%	-
	06/30/04	15,097	100.0%	-

(c) Post-Retirement Benefits

The City provides health and dental insurance for City retirees under the City's group plans. The City contributes 75% of the cost and the retiree contributes 25% of the cost. At age 65, the retiree's coverage converts to Medicare Extended. The City also provides life insurance at one-half salary without cost to retirees.

There is a legal requirement that the City provide health and dental benefits to retirees. Since 1958, the City has allowed employees to continue their coverage after retirement. Life insurance to retirees at one-half salary 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 bi-annual actuary study. The pension plan then pays the premiums out of its funds.

The actual costs to the fund for the 3,625 retirees for fiscal year 2006 were: health \$9,794,782 (933 participating); dental \$328,621 (854 participating); and life \$1,281,411 (881 participating).

The School Board provides health and dental insurance for School Board retirees under the school's group plans. The School Board also provides life insurance for retirees not covered by VRS. The amount of coverage is \$10,000 or \$5,000 depending on the retiree's position at time of retirement, and the Board pays the entire cost. The actual costs for the 2,239 retirees for fiscal year 2006 were: health and dental \$4,548,413 (1,896 participating), and life \$74,523 (317 participating).

CITY OF NEWPORT NEWS, VIRGINIA
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There is a legal requirement that the School Board provide health and dental benefits to retirees. Since 1978, the School Board has allowed employees to continue their coverage after retirement. The life insurance benefit for non-VRS retirees was implemented on January 1, 1991.

The School Board funds the cost of retiree health, dental and life insurance through the annual pension contribution amount. The actuary computes the current and next years' cost of these on a pay-as-you-go basis in the annual actuary study and incorporates it in the percent of contributions required for the pension fund. The pension plan then pays the premiums out of its funds.

(d) *Deferred Compensation*

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.

(9) Self Insurance

(a) *Medical Benefits*

The School Board is self-insured for medical benefits through the respective General Funds for employees up to \$150,000, per employee per year, or 110% of adjusted subscriber charges for the year (\$25,021,082 for 2006). The City self-insures for medical benefits for its employees up to \$200,000 per employee per year, or 125% of adjusted subscriber charges for the year (estimated to be approximately \$31,750,000), 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 2006 or 2005. 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, 2006 are recognized as a long-term liability in the statement of net assets.

CITY OF NEWPORT NEWS, VIRGINIA

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June 30, 2006

Changes in the incurred but not reported amount during the fiscal years ended June 30, 2006 and 2005 for the City and the Public Schools were as follows:

	<u>City</u>		<u>Public Schools</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Claims payable at beginning of year	\$ 2,800,000	2,995,000	2,025,800	2,017,000
Claims and changes in estimates	24,933,697	23,243,851	21,637,395	21,051,652
Claim payments	<u>(25,041,697)</u>	<u>(23,438,851)</u>	<u>(21,827,695)</u>	<u>(21,042,852)</u>
Claims payable at end of year	<u>\$ 2,692,000</u>	<u>2,800,000</u>	<u>1,835,500</u>	<u>2,025,800</u>

(b) Workers' Compensation

The City and the School Board self-insure for workers' compensation through the respective General Funds up to \$1,500,000 and \$350,000 respectively, per claim. 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, 2006 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, 2006 and 2005 for the City and the Public Schools.

	<u>City</u>		<u>Public Schools</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Claims payable at beginning of year	\$ 9,092,411	7,961,049	1,586,267	1,679,218
Claims and changes in estimates	3,171,777	4,167,246	585,868	619,239
Claim payments	<u>(2,563,158)</u>	<u>(3,035,884)</u>	<u>(568,963)</u>	<u>(712,190)</u>
Claims payable at end of year	<u>\$ 9,701,030</u>	<u>9,092,411</u>	<u>1,603,172</u>	<u>1,586,267</u>

A loss analysis was conducted by Mercer Oliver Wyman on this fund. The total actuarially computed liability as of June 30, 2006 for the City and School Board was determined to be approximately \$9.7 million and \$1.6 million, respectively.

(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 \$250,000 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.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2006

	City	
	2006	2005
Claims payable at beginning of year	\$ 2,526,517	2,851,059
Claims and changes in estimates	646,992	372,403
Claim payments	(1,095,070)	(696,945)
Claims payable at end of year	\$ 2,078,439	2,526,517

(10) 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, 2006, will not be material to the financial statements.

(c) Regional Raw Water Project

As of June 30, 2006, the City's Public Utility has incurred cumulative costs of approximately \$30.0 million related to the Regional Raw Water Project (the Project) known as the King William Reservoir. The project began in 1987, with the necessary federal permit issued on November 16, 2005, by the U.S. Army Corps of Engineers. This was the final permit needed to begin implementing the project to create a 12 billion gallon reservoir in King William County to store water withdrawn from the Mattaponi River. Completion of this project in 2018 will add 20 million gallons per day to the water supply of the Peninsula.

(11) Jointly Governed Organizations and Joint Ventures

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

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

(b) Hampton Roads Regional Jail Authority (HRRJA)

The HRRJA is a 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's funding or has responsibility over its operations.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Basic Financial Statements

June 30, 2006

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 contributes \$1.40 per capita. Separate financial statements are available from the HREDA, 500 E. Main Street, Suite 1300, Norfolk, Virginia 23510.

(12) Prior Period Adjustments

The fund balance of the solid waste special revenue fund (part of nonmajor governmental funds) at the beginning of FY 2006 have been restated to properly defer revenue under modified accrual basis of accounting. Prior year billings had been recorded as revenue even though they did not meet the availability criteria under modified accrual accounting. This adjustment does not effect the governmental activities of the primary government. The following is a summary of the prior period adjustments' effect on beginning assets:

	<u>Solid Waste</u>	<u>Nonmajor</u>
Fund balance, July 1, 2005, as previously stated	\$ 2,823,826	\$ 12,594,362
Net adjustment: Defer solid waste revenue due to availability criteria	(659,633)	(659,633)
Fund balance, July 1, 2005, as adjusted	<u>\$ 2,164,193</u>	<u>\$ 11,934,729</u>

The net assets of the Parking Authority at the beginning of FY 2005 have been restated to properly classify capital assets. The net asset amount was increased by \$22,340.

	<u>Balance</u>		<u>Restated Balance</u>
	<u>June 30, 2006</u>	<u>Adjustment</u>	<u>June 30, 2006</u>
Invested in capital assets, net of related debt	\$ 2,381,446	\$ 22,340	\$ 2,403,786
Restricted for capital projects	225,000	-	225,000
Unrestricted	747,702	-	747,702
Total net assets	<u>\$ 3,354,148</u>	<u>\$ 22,340</u>	<u>\$ 3,376,488</u>

(13) Subsequent Events

In October 2006, the City issued \$20,000,000 of general improvement bond anticipation notes (BANs) Series 06A with a true interest cost of 3.5% and a maturity date of April 11, 2007. The net proceeds of \$20,000,000 (after an original issue premium of \$1,109,184 and payment of \$279,184 for underwriting fees and other issuance costs) were used to fund on-going capital projects.

CITY OF NEWPORT NEWS, VIRGINIA
Notes to Basic Financial Statements
June 30, 2006

In October 2006, the City received a \$3,200,000 Virginia Resources Authority (VRA) loan with an interest rate of 3.5%. The loan will be used to finance the replacement and rehabilitation of sanitary sewers and related improvements in the City.

CITY OF NEWPORT NEWS, VIRGINIA
 General Fund
 Schedule of Revenues, Expenditures and Changes
 in Fund Balance – Budget and Actual (Budget Basis)
 Year ended June 30, 2006

	<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	\$ 124,983,379	124,983,379	127,381,861	2,398,482
Real and personal public service corporation property taxes	4,558,000	4,558,000	3,786,209	(771,791)
Personal property taxes	40,232,200	40,232,200	45,503,902	5,271,702
Machinery and tools taxes	11,655,000	11,655,000	11,887,389	232,389
Penalties and interest	1,025,000	1,025,000	918,056	(106,944)
Total general property taxes	<u>182,453,579</u>	<u>182,453,579</u>	<u>189,477,417</u>	<u>7,023,838</u>
Other local taxes:				
E-911 service revenue	2,882,000	2,882,000	2,750,556	(131,444)
Local sales and use taxes	21,699,000	21,699,000	22,432,446	733,446
Consumers' utility taxes	9,620,800	9,620,800	9,254,101	(366,699)
Cellular telephone taxes	3,042,053	3,042,053	3,117,614	75,561
Consumption tax	710,000	710,000	774,586	64,586
Business license taxes	13,999,806	13,999,806	14,701,673	701,867
Rental car taxes	927,000	927,000	932,481	5,481
Franchise license taxes	1,855,000	1,855,000	1,732,167	(122,833)
Cable television tax	2,145,000	2,145,000	2,108,165	(36,835)
Motor vehicle license	3,617,000	3,617,000	3,585,645	(31,355)
Bank stock taxes	545,000	545,000	600,317	55,317
Taxes on recordation and wills	1,500,000	1,500,000	2,535,995	1,035,995
Tobacco taxes	4,735,300	4,735,300	4,622,565	(112,735)
Hotel and motel room taxes	2,918,500	2,918,500	2,802,362	(116,138)
Restaurant food taxes	15,099,000	15,099,000	16,649,811	1,550,811
Amusement taxes	573,900	573,900	569,643	(4,257)
Total other local taxes	<u>85,869,359</u>	<u>85,869,359</u>	<u>89,170,127</u>	<u>3,300,768</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	50,000	50,000	41,586	(8,414)
Permits and other licenses	3,519,104	3,519,104	3,444,874	(74,230)
Total permits, privilege fees, and regulatory licenses	<u>3,569,104</u>	<u>3,569,104</u>	<u>3,486,460</u>	<u>(82,644)</u>
Fines and forfeitures	<u>2,309,300</u>	<u>2,309,300</u>	<u>2,078,904</u>	<u>(230,396)</u>
Revenue from use of money and property				
Revenue from use of money	1,334,400	1,334,400	2,456,345	1,121,945
Revenue from use of property	1,769,525	1,769,525	2,225,343	455,818
Total revenue from use of money and property	<u>3,103,925</u>	<u>3,103,925</u>	<u>4,681,688</u>	<u>1,577,763</u>
Charges for services:				
Court costs	1,575,097	1,575,097	1,765,702	190,605
Law enforcement and traffic control	72,000	72,000	94,188	22,188
Fire and rescue services	2,628,373	2,628,373	1,597,367	(1,031,006)
Correction and detention	3,000	3,000	2,550	(450)
Information Technology	1,475,061	1,475,061	1,451,801	(23,260)
Parks and recreation	5,541,842	5,541,842	6,124,140	582,298
Cultural enrichment	290,379	290,379	227,256	(63,123)
Self-insurance premiums	1,766,531	1,766,531	1,922,885	156,354
Library	51,400	51,400	63,270	11,870
Planning and community development	28,500	28,500	19,846	(8,654)
Indirect costs	1,333,092	1,333,092	1,333,092	—
Animal services	56,782	56,782	55,174	(1,608)
Applied research center	823,117	823,117	553,758	(269,359)
Total charges for services	<u>\$ 15,645,174</u>	<u>15,645,174</u>	<u>15,211,029</u>	<u>(434,145)</u>

CITY OF NEWPORT NEWS, VIRGINIA
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance – Budget and Actual (Budget Basis)
Year ended June 30, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Recovered costs:				
Health department	\$ 171,472	208,719	131,733	(76,986)
Juvenile detention home	4,316,830	4,316,830	3,528,986	(787,844)
City farm	1,901,100	1,901,100	1,414,040	(487,060)
City jail	2,063,708	2,063,708	2,041,753	(21,955)
Fire hazardous material	—	—	1,743	1,743
Sewer assessments - debt service	37,000	37,000	193,135	156,135
Library assistance	15,480	15,480	16,080	600
Office on youth development	247,899	247,899	223,846	(24,053)
Total recovered costs	<u>8,753,489</u>	<u>8,790,736</u>	<u>7,551,316</u>	<u>(1,239,420)</u>
Miscellaneous revenue:				
Payments in lieu of taxes	2,635,006	2,635,006	2,644,806	9,800
Miscellaneous	960,889	960,889	3,894,256	2,933,367
Total miscellaneous revenue	<u>3,595,895</u>	<u>3,595,895</u>	<u>6,539,062</u>	<u>2,943,167</u>
Total revenue from local sources	<u>305,299,825</u>	<u>305,337,072</u>	<u>318,196,003</u>	<u>12,858,931</u>
Revenue from the Commonwealth				
Noncategorical aid:				
ABC profits	105,931	105,931	105,931	—
Wine taxes	111,036	111,036	111,037	1
Motor vehicle carriers' taxes	47,000	47,000	46,611	(389)
Mobile home titling taxes	50,000	50,000	41,806	(8,194)
Tax on deeds	440,000	440,000	503,774	63,774
State rebate – recording tax	480,273	480,273	489,816	9,543
DCJP grants for law enforcement	9,090,863	9,090,863	9,090,840	(23)
Total noncategorical aid	<u>10,325,103</u>	<u>10,325,103</u>	<u>10,389,815</u>	<u>64,712</u>
Shared expenses:				
Technology trust fund	—	182,352	182,352	—
Commonwealth's attorney	1,298,949	1,298,949	1,288,758	(10,191)
Sheriff	6,003,217	6,025,414	6,115,117	89,703
Commissioner of the revenue	395,097	395,097	403,435	8,338
Treasurer	381,720	381,720	381,769	49
Registrar/electoral board	72,167	72,167	71,132	(1,035)
Total shared expenses	<u>8,151,150</u>	<u>8,355,699</u>	<u>8,442,563</u>	<u>86,864</u>
Categorical aid:				
Emergency services grant	75,000	127,468	127,468	—
Welfare	24,143,212	24,151,592	26,239,475	2,087,883
Emergency medical service funds	52,408	52,408	52,408	—
Library	210,552	210,552	210,552	—
Other	—	—	11,585	11,585
Total categorical state aid	<u>24,481,172</u>	<u>24,542,020</u>	<u>26,641,488</u>	<u>2,099,468</u>
Total revenue from the Commonwealth	<u>42,957,425</u>	<u>43,222,822</u>	<u>45,473,866</u>	<u>2,251,044</u>
Other financing sources:				
Transfers from other funds	9,134,000	9,134,000	9,134,000	—
Total revenue	<u>\$ 357,391,250</u>	<u>357,693,894</u>	<u>372,803,869</u>	<u>15,109,975</u>

CITY OF NEWPORT NEWS, VIRGINIA
 General Fund
 Schedule of Revenues, Expenditures and Changes
 in Fund Balance – Budget and Actual (Budget Basis)
 Year ended June 30, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures:				
General government administration				
Legislative:				
City Council	\$ 309,711	309,790	289,454	20,336
City Clerk	313,131	315,819	267,283	48,536
Total legislative	622,842	625,609	556,737	68,872
General and financial administration:				
City manager	866,393	1,141,270	1,143,027	(1,757)
Intergovernmental affairs	271,980	198,236	195,912	2,324
Personnel	1,175,529	1,176,195	1,121,087	55,108
Medical services	85,160	85,160	76,742	8,418
City attorney	1,449,250	1,453,641	1,446,180	7,461
Management/legislative services	286,378	175,484	174,360	1,124
Video production service	465,834	489,853	479,456	10,397
Internal auditor	462,349	462,974	452,443	10,531
Commissioner of the Revenue	2,367,712	2,370,902	2,299,060	71,842
Real estate assessor	2,333,627	2,333,806	1,954,634	379,172
City treasurer	1,935,037	1,935,912	1,839,249	96,663
Finance	1,160,629	1,161,607	1,115,137	46,470
Budget and evaluation	517,125	517,125	487,593	29,532
Auto self-insurance	992,700	2,067,700	2,306,470	(238,770)
General liability self-insurance	1,142,700	1,142,700	1,105,405	37,295
Workers' compensation	2,927,600	2,927,600	3,228,520	(300,920)
Purchasing	1,093,864	1,097,374	1,041,400	55,974
Information technology	7,278,350	7,289,607	6,556,897	732,710
Total general and financial administration	26,812,217	28,027,146	27,023,572	1,003,574
Board of elections -				
Registrar	463,516	463,666	418,783	44,883
Nondepartmental:				
Appointed boards	137,563	137,563	113,484	24,079
Community support	2,307,354	2,307,354	2,267,229	40,125
Contract community agencies	3,559,853	3,567,800	3,566,461	1,339
City development	1,846,815	1,794,007	1,457,623	336,384
Contractual services	1,476,792	1,775,046	1,315,236	459,810
Internal services	107,400	17,755	6,465	11,290
Machinery and equipment	802,803	959,277	725,380	233,897
Street lighting	250,585	375,230	1,268,346	(893,116)
Other	8,012,083	13,628,673	13,339,893	288,780
Total nondepartmental	18,501,248	24,562,705	24,060,117	502,588
Total general government administration	46,399,823	53,679,126	52,059,209	1,619,917
Judicial administration:				
Courts:				
Circuit courts	509,718	509,718	464,390	45,328
District courts	333,494	333,494	296,394	37,100
Office of the Magistrate	215,704	215,704	211,831	3,873
Juvenile/domestic relations court	58,341	58,341	33,963	24,378
Clerk of the circuit court	1,310,513	1,592,865	1,546,470	46,395
Court services	467,339	467,339	443,025	24,314
Total courts	2,895,109	3,177,461	2,996,073	181,388
Commonwealth's attorney	2,661,934	2,661,934	2,564,256	97,678
Total judicial administration	\$ 5,557,043	5,839,395	5,560,329	279,066

CITY OF NEWPORT NEWS, VIRGINIA
 General Fund
 Schedule of Revenues, Expenditures and Changes
 in Fund Balance – Budget and Actual (Budget Basis)
 Year ended June 30, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 37,494,283	37,417,617	36,741,804	675,813
Emergency communications	327,075	327,075	320,870	6,205
Total law enforcement and traffic control	37,821,358	37,744,692	37,062,674	682,018
Fire and rescue services:				
Fire department	25,030,494	25,365,136	24,672,405	692,731
Ambulance and rescue service	862,527	909,995	911,600	(1,605)
Total fire and rescue services	25,893,021	26,275,131	25,584,005	691,126
Correction and detention:				
Sheriff	9,995,769	10,031,810	10,791,852	(760,042)
Adult corrections	4,597,495	4,597,834	4,416,470	181,364
Juvenile detention	8,454,226	8,487,815	6,741,979	1,745,836
Total correction and detention	23,047,490	23,117,459	21,950,301	1,167,158
Inspection – codes compliance	2,629,989	2,636,158	2,479,409	156,749
Total public safety	89,391,858	89,773,440	87,076,389	2,697,051
Public works:				
Engineering:				
Administration	981,614	1,018,784	976,089	42,695
Technical services	1,009,215	1,004,044	965,035	39,009
Construction inspection	766,820	713,414	633,043	80,371
Asbestos inspection	562,946	518,304	473,632	44,672
Mapping	240,713	237,614	201,966	35,648
Project services	214,504	214,916	211,980	2,936
Traffic administration	601,828	609,772	526,697	83,075
Traffic operations	976,554	1,042,317	905,937	136,380
Total engineering	5,354,194	5,359,165	4,894,379	464,786
Public works administration	1,022,131	1,009,402	829,963	179,439
Maintenance of highways, streets, bridges, and sidewalks	2,661,281	2,872,569	1,413,926	1,458,643
Maintenance of general buildings and grounds	7,191,155	7,133,245	6,613,793	519,452
Total public works	16,228,761	16,374,381	13,752,061	2,622,320
Health and welfare:				
Health -				
Medical services	3,243,662	3,343,189	3,302,280	40,909
Welfare:				
Social services administration	6,239,487	6,239,953	6,062,150	177,803
Financial services	6,589,701	6,589,701	6,031,452	558,249
Social work services	16,852,059	16,852,168	17,011,237	(159,069)
Healthy families	645,759	654,139	616,724	37,415
Employment service program	2,247,285	2,247,285	1,882,616	364,669
CSA administration	214,739	219,939	198,665	21,274
Fuel assistance	77,733	77,733	70,464	7,269
State/local hospitalization	59,563	59,563	58,337	1,226
Cooperative extension	248,475	248,475	244,125	4,350
Office of Youth Development	667,993	667,993	652,812	15,181
Total welfare	33,842,794	33,856,949	32,828,582	1,028,367
Total health and welfare	\$ 37,086,456	37,200,138	36,130,862	1,069,276

CITY OF NEWPORT NEWS, VIRGINIA
 General Fund
 Schedule of Revenues, Expenditures and Changes
 in Fund Balance – Budget and Actual (Budget Basis)
 Year ended June 30, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Parks, recreation and cultural:				
Parks and recreation:				
Administration	\$ 1,963,083	1,957,091	1,860,499	96,592
Recreation division	4,857,994	4,903,577	4,790,039	113,538
Parks division	3,520,024	3,493,062	3,515,402	(22,340)
Recreation classes	3,338,700	3,338,700	3,654,475	(315,775)
Golf course	1,934,500	1,934,500	1,683,259	251,241
Leeward Marina	199,705	199,705	151,428	48,277
Festival support	685,611	685,844	690,878	(5,034)
Tourism, promotion and development	1,533,100	1,626,545	1,694,160	(67,615)
Animal services	885,426	932,486	934,208	(1,722)
Total parks and recreation	<u>18,918,143</u>	<u>19,071,510</u>	<u>18,974,348</u>	<u>97,162</u>
Cultural enrichment – Museum	1,166,100	1,166,100	1,237,372	(71,272)
Library	4,182,310	4,185,398	3,999,631	185,767
Total parks, recreation and cultural	<u>24,266,553</u>	<u>24,423,008</u>	<u>24,211,351</u>	<u>211,657</u>
Community development -				
Planning and community development				
Development	985,314	997,824	981,640	16,184
Planning	1,047,803	1,051,909	1,012,781	39,128
Economic development	1,826,703	3,826,703	3,787,974	38,729
Total community development	<u>3,859,820</u>	<u>5,876,436</u>	<u>5,782,395</u>	<u>94,041</u>
Education – transfer to Public Schools	<u>101,186,564</u>	<u>101,186,564</u>	<u>101,186,564</u>	—
Transfers to other funds:				
Debt service	29,331,538	29,331,538	27,331,538	2,000,000
Capital projects	—	4,505,908	4,505,908	—
Other	4,438,000	4,438,000	5,413,354	(975,354)
Total transfers to other funds	<u>33,769,538</u>	<u>38,275,446</u>	<u>37,250,800</u>	<u>1,024,646</u>
Total expenditures and transfers to other funds	<u>\$ 357,746,416</u>	<u>372,627,934</u>	<u>363,009,960</u>	<u>9,617,974</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (355,166)</u>	<u>(14,934,040)</u>	9,793,909	<u>24,727,949</u>
Less encumbrances outstanding at June 30, 2005 expended or canceled at June 30, 2006			(5,459,374)	
Add encumbrances outstanding at June 30, 2006			4,941,911	
Less machinery and equipment refund			(2,104,392)	
Less FEMA write-off			(2,137,845)	
FY 2006 surplus			5,034,209	
Fund balance at beginning of year			<u>93,008,823</u>	
Fund balance at end of year			<u>\$ 98,043,032</u>	

See accompanying notes to required supplementary information

CITY OF NEWPORT NEWS, VIRGINIA

Required Supplementary Information
 Schedule of Funding Progress (unaudited)
 Year ended June 30, 2006

Newport News Employee Retirement Fund (in millions):

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actual accrued liability (AAL)</u>	<u>Overfunded (unfunded) accrued liability (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
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%	283	-49.5%
June 30, 2003	586	677	(91)	87%	262	-34.7%

Peninsula Airport Commission (PAC) (in thousands):

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actual accrued liability (AAL)</u>	<u>Overfunded accrued liability (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
June 30, 2006	\$ 3,010	3,735	(725)	81%	\$ 1,990	-36.4%
June 30, 2005	2,881	2,988	(107)	96%	1,503	-7.1%
June 30, 2004	2,954	2,885	69	102%	1,319	5.2%
June 30, 2003	2,807	2,522	285	111%	1,091	26.1%

CITY OF NEWPORT NEWS, VIRGINIA
 Required Supplementary Information
 Employees' Retirement Fund
 Schedule of Employer Contributions (Unaudited)
 (in millions)
 Year ended June 30, 2006

Newport News Employee Retirement Fund (in millions):

Fiscal year end	Annual required contribution	Actual contribution	Percentage contributed
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%
1999	10.9	10.9	100%

See accompanying notes to required supplementary information.

CITY OF NEWPORT NEWS, VIRGINIA
Notes to Required Supplementary Information
Year ended June 30, 2006

(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 reserved fund balances, lapse at year-end. Encumbrances and reserved fund balances outstanding at year-end are reappropriated in the succeeding year. There were supplemental appropriations made during 2003 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. 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. 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, 2006

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.

CITY OF NEWPORT NEWS, VIRGINIA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

Assets	Special Revenue						
	Community development	Street maintenance	Economic development	Law library	Stormwater	Solid waste	Wastewater
Cash and cash equivalents	\$ —	—	787,973	96,519	3,836,168	2,350,047	—
Accounts receivable, ne	—	—	—	1,587	378,476	627,188	389,187
Receivable from other governments							
State	—	—	—	—	50,945	—	—
Federal	79,006	—	—	—	196,792	—	—
Advances to (from) other funds	—	—	—	—	—	—	—
Total assets	<u>\$ 79,006</u>	<u>—</u>	<u>787,973</u>	<u>98,106</u>	<u>4,462,381</u>	<u>2,977,235</u>	<u>389,187</u>
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	\$ 49,607	—	6,967	1,064	106,527	628,533	139,773
Accrued liabilities:	—	—	—	—	90,420	32,211	26,474
Deferred revenue	—	—	—	—	287,885	—	—
Advances from major governmental fund	29,399	—	—	—	—	—	225,865
Total liabilities	<u>79,006</u>	<u>—</u>	<u>6,967</u>	<u>1,064</u>	<u>484,832</u>	<u>660,744</u>	<u>392,112</u>
Fund balances:							
Reserved for encumbrances:	—	—	—	—	246,041	85,136	—
Unreserved:							
Designated:							
Imprest funds	—	—	—	25	—	—	—
Capital improvements	—	—	—	—	—	—	—
Specific projects	—	—	—	—	2,273,877	1,336,607	872,512
Undesignated	—	—	781,006	97,017	1,457,631	894,748	(875,437)
Total fund balances	<u>—</u>	<u>—</u>	<u>781,006</u>	<u>97,042</u>	<u>3,977,549</u>	<u>2,316,491</u>	<u>(2,925)</u>
Total liabilities and fund balances	<u>\$ 79,006</u>	<u>—</u>	<u>787,973</u>	<u>98,106</u>	<u>4,462,381</u>	<u>2,977,235</u>	<u>389,187</u>

(continued)

CITY OF NEWPORT NEWS, VIRGINIA

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2006

	Special Revenue		Capital Projects			Total nonmajor
	Comprehensive Services Act	Other federal and state	General capital improvements	Revenue sharing	Other federal and state	
Assets						
Cash and cash equivalents	\$ —	1,521,091	4,182,329	4,861	102,796	12,881,784
Accounts receivable, net	—	493	—	—	—	1,396,931
Receivable from other governments						
Local	—	—	—	—	28,819	28,819
State	2,826,649	205,203	—	—	288,766	3,371,563
Federal	—	513,790	—	—	20,000	809,588
Advances to (from) other funds	—	—	278,741	—	(278,741)	—
Total assets	\$ 2,826,649	2,240,577	4,461,070	4,861	161,640	18,488,685
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 1,889,303	205,332	596,495	—	87,434	3,711,035
Accrued liabilities:	—	25,699	820	—	—	175,624
Deferred revenue	—	—	129,318	—	—	417,203
Advances from major governmental fund	937,346	—	—	—	—	1,192,610
Total liabilities	2,826,649	231,031	726,633	—	87,434	5,496,472
Fund balances:						
Reserved for encumbrances:	—	2,294	1,063,656	—	—	1,397,127
Unreserved:						
Designated:						
Imprest funds	—	—	—	—	—	25
Capital improvements	—	—	2,527,608	—	—	2,527,608
Specific projects	—	2,007,252	143,173	—	74,206	6,707,627
Undesignated	—	—	—	4,861	—	2,359,826
Total fund balances	—	2,009,546	3,734,437	4,861	74,206	12,992,213
Total liabilities and fund balances	\$ 2,826,649	2,240,577	4,461,070	4,861	161,640	18,488,685

CITY OF NEWPORT NEWS, VIRGINIA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended June 30, 2006

	Special Revenue						
	Community development	Street maintenance	Economic development	Law library	Stormwater	Solid waste	Wastewater
Revenues:							
Intergovernmental							
Local	\$ —	—	—	—	23,519	—	—
State	—	12,073,525	—	—	50,945	26,760	—
Federal	2,993,006	—	—	—	196,792	—	—
Charges for services	—	—	—	110,495	6,957,015	10,382,311	8,628,539
Interest and rents	—	—	112,376	—	89,923	57,122	14,244
Miscellaneous	—	—	22,900	—	—	60,133	53,209
Total revenues	<u>2,993,006</u>	<u>12,073,525</u>	<u>135,276</u>	<u>110,495</u>	<u>7,318,194</u>	<u>10,526,326</u>	<u>8,695,992</u>
Expenditures:							
Current operating:							
General government	—	—	—	105,142	—	—	—
Public safety	—	—	—	—	—	—	—
Public works	—	12,073,525	—	—	5,985,038	9,678,708	6,854,777
Health and welfare	—	—	—	—	—	—	—
Parks, recreation, and culture	—	—	—	—	—	—	—
Community development	2,993,006	—	67,643	—	—	—	—
Capital outlay	—	—	—	—	—	—	—
Total expenditures	<u>2,993,006</u>	<u>12,073,525</u>	<u>67,643</u>	<u>105,142</u>	<u>5,985,038</u>	<u>9,678,708</u>	<u>6,854,777</u>
Excess (deficiency) of revenues over (under) expenditures:	<u>—</u>	<u>—</u>	<u>67,633</u>	<u>5,353</u>	<u>1,333,156</u>	<u>847,618</u>	<u>1,841,215</u>
Other financing sources (uses):							
Transfers in	—	—	—	—	—	—	—
Transfers out	—	—	—	—	(1,280,502)	(706,180)	(2,992,467)
Total other financing sources (uses)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,280,502)</u>	<u>(706,180)</u>	<u>(2,992,467)</u>
Net changes in fund balances	<u>—</u>	<u>—</u>	<u>67,633</u>	<u>5,353</u>	<u>52,654</u>	<u>141,438</u>	<u>(1,151,252)</u>
Fund balances at June 30, 2005, as restated	<u>—</u>	<u>—</u>	<u>713,373</u>	<u>91,689</u>	<u>3,924,895</u>	<u>2,175,055</u>	<u>1,148,327</u>
Fund balances at June 30, 2006	<u>\$ —</u>	<u>—</u>	<u>781,006</u>	<u>97,042</u>	<u>3,977,549</u>	<u>2,316,493</u>	<u>(2,925)</u>

(continued)

CITY OF NEWPORT NEWS, VIRGINIA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended June 30, 2006

	Special Revenue		Capital Projects			Total nonmajor
	Comprehensive Services Act	Other federal and state	General capital improvements	Revenue sharing	Other federal and state	
Revenues:						
Intergovernmental						
Local	\$ —	473,698	682,317	—	37,099	1,216,633
State	7,290,524	1,017,920	—	—	32,040	20,491,714
Federal	—	3,298,802	—	—	111,807	6,600,407
Charges for services	—	—	—	—	—	26,078,360
Interest and rents	—	31,627	—	—	—	305,292
Miscellaneous	—	—	—	—	—	136,242
Total revenues	7,290,524	4,822,047	682,317	—	180,946	54,828,648
Expenditures:						
Current operating:						
General government	—	—	—	—	—	105,142
Public safety	—	4,893,304	—	—	—	4,893,304
Public works	—	—	—	—	—	34,592,048
Health and welfare	12,629,973	231,094	—	—	—	12,861,067
Parks, recreation, and culture	—	162,396	—	—	—	162,396
Community development	—	—	—	—	—	3,060,649
Capital outlay	—	—	2,190,793	—	106,740	2,297,533
Total expenditures	12,629,973	5,286,794	2,190,793	—	106,740	57,972,139
Excess (deficiency) of revenues over (under) expenditures	(5,339,449)	(464,747)	(1,508,476)	—	74,206	(3,143,491)
Other financing sources (uses):						
Transfers in	5,339,449	73,905	4,505,908	—	—	9,919,262
Transfers out	—	—	(750,000)	—	—	(5,729,149)
Total other financing sources (uses)	5,339,449	73,905	3,755,908	—	—	4,190,113
Net changes in fund balances	—	(390,842)	2,247,432	—	74,206	1,046,622
Fund balances at June 30, 2005	—	2,400,386	1,487,005	4,861	—	11,945,591
Fund balances at June 30, 2006	\$ —	2,009,544	3,734,437	4,861	74,206	12,992,213

CITY OF NEWPORT NEWS, VIRGINIA
 Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual (Non-GAAP Basis)
 Special Revenue Funds
 Year ended June 30, 2006

	Street Maintenance				Economic Development				Law Library				Stormwater			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
Revenues:																
Intergovernmental																
Local	\$ -	-	-	-	-	-	-	-	-	-	-	-	-	16,581	23,519	6,938
State	11,679,396	12,073,525	12,073,525	-	-	-	-	-	-	-	-	-	-	64,122	50,945	(13,177)
Federal	-	-	-	-	-	-	-	-	-	-	-	-	-	239,904	196,792	(43,112)
Charges for services:																
Interest and rents	-	-	-	-	57,298	57,298	112,376	55,078	111,000	111,000	110,495	(505)	6,877,904	6,892,904	6,957,015	64,111
Miscellaneous	-	-	-	-	95,000	95,000	22,900	(72,100)	-	-	-	-	994,821	1,524,821	-	(1,524,821)
Total revenues	\$ 11,679,396	12,073,525	12,073,525	-	152,298	152,298	135,276	(17,022)	111,000	111,000	110,495	(505)	7,945,000	8,810,607	7,318,194	(1,492,413)
Expenditures:																
Current:																
General government	-	-	-	-	-	-	-	-	111,000	111,000	105,142	5,858	-	-	-	-
Public works	11,679,396	12,073,525	12,073,525	-	-	-	-	-	-	-	-	-	7,945,000	8,810,607	7,506,207	1,304,400
Community developmen	-	-	-	-	153,000	153,000	67,643	85,357	-	-	-	-	-	-	-	-
Total expenditures	\$ 11,679,396	12,073,525	12,073,525	-	153,000	153,000	67,643	85,357	111,000	111,000	105,142	5,858	7,945,000	8,810,607	7,506,207	1,304,400
Operating Transfers In	-	-	-	-	-	-	-	-	-	-	-	-	-	-	124,047	-
Operating Transfers Out	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fund Balance Allocation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Excess (deficiency) of revenues over expenditures	\$ -	-	-	-	(702)	(702)	67,633	68,335	-	-	5,353	5,353	-	-	(63,966)	(188,013)
Less encumbrances outstanding at June 30, 2005, expended as of June 30, 2006															(129,421)	
Add encumbrances outstanding at June 30, 2006															246,041	
Excess (deficiency) of revenue: over expenditures - GAAP basis:							67,633					5,353			52,654	
Fund balances at June 30, 2005							713,373					91,689			3,924,895	
Fund balances at June 30, 2006							<u>781,006</u>				<u>97,042</u>				<u>3,977,549</u>	

See accompanying notes to combined financial statements

CITY OF NEWPORT NEWS, VIRGINIA
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Non-GAAP Basis)
Special Revenue Funds
Year ended June 30, 2006

	Solid Waste				Wastewater				Totals, Pages 1 & 2			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
Revenues:												
Intergovernmental:												
Local	-	-	-	-	-	-	-	-	-	16,581	23,519	6,938
State	\$ 17,688	17,688	26,760	9,072	-	-	-	-	11,697,084	12,155,335	12,151,230	(4,105)
Federal	-	-	-	-	-	-	-	-	-	239,904	196,792	(43,112)
Charges for services	10,677,744	10,677,744	10,355,633	(322,111)	8,540,889	8,540,889	8,628,539	87,650	26,207,537	26,222,537	26,051,682	(170,855)
Interest and rents	4,999	4,999	57,122	52,123	1	1	14,244	14,243	134,573	134,573	273,665	139,092
Miscellaneous	323,669	323,669	97,701	(225,968)	366,510	366,510	53,209	(313,301)	1,780,000	2,310,000	173,810	(2,136,190)
Total revenues	\$ 11,024,100	11,024,100	10,537,216	(486,884)	8,907,400	8,907,400	8,695,992	(211,408)	39,819,194	41,078,930	38,870,698	(2,208,232)
Expenditures:												
Current:												
General government	-	-	-	-	-	-	-	-	111,000	111,000	105,142	5,858
Public works	11,024,100	11,024,100	10,465,334	(558,766)	8,907,400	8,907,400	9,519,707	(612,307)	39,555,896	40,815,632	39,564,773	1,250,859
Community development	-	-	-	-	-	-	-	-	153,000	153,000	67,643	85,357
Total expenditures	\$ 11,024,100	11,024,100	10,465,334	(558,766)	8,907,400	8,907,400	9,519,707	(612,307)	39,819,896	41,079,632	39,737,558	1,342,074
Operating Transfers In	-	-	-	-	-	-	-	-	-	-	124,047	124,047
Operating Transfers Out	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from Fund Balance	-	-	-	-	-	-	-	-	-	-	-	-
Excess (deficiency) of revenues over expenditures	\$ -	-	71,882	71,882	-	-	(823,715)	(823,715)	(702)	(702)	(742,813)	(742,111)
Less encumbrances outstanding at June 30, 2005, expended as of June 30, 2006			(4,690)				(327,537)				(461,648)	
Add encumbrances outstanding at June 30, 2006			85,136				-				331,177	
Excess (deficiency) of revenues over expenditures - GAAP basis			152,328				(1,151,252)				(873,284)	
Fund balances at June 30, 2005			2,823,826				1,148,327				8,702,110	
Fund balances at June 30, 2006			2,976,154				(2,925)				7,828,826	

See accompanying notes to combined financial statements.

CITY OF NEWPORT NEWS, VIRGINIA
Debt Service Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Budget Basis)
Year ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Intergovernmental - Local	\$ 51,509,155	51,509,155	16,415,709	(35,093,446)
Miscellaneous	-	-	38,786	38,786
Total revenues	<u>\$ 51,509,155</u>	<u>51,509,155</u>	<u>16,454,495</u>	<u>(35,054,660)</u>
Expenditures:				
General government	547,105	547,105	547,105	-
Debt service payments	50,962,050	50,962,050	48,437,165	2,524,885
Total expenditures	<u>\$ 51,509,155</u>	<u>51,509,155</u>	<u>48,984,270</u>	<u>2,524,885</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>-</u>	<u>(32,529,775)</u>	<u>(32,529,775)</u>
Transfers in (out)			<u>31,711,939</u>	
Net changes in fund balances			(817,836)	
Fund balances at June 30, 2005			<u>1,137,289</u>	
Fund balances at June 30, 2006			<u><u>319,453</u></u>	

CITY OF NEWPORT NEWS, VIRGINIA
Combining Statement of Changes in Assets and Liabilities
Agency Funds
Year Ended June 30, 2006

GPWDC	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006
Assets:				
Cash and cash equivalents	\$ -	4,518,072	4,518,072	-
Accounts receivable	433,424	4,195,645	3,883,129	745,940
Total assets	<u>\$ 433,424</u>	<u>8,713,717</u>	<u>8,401,201</u>	<u>745,940</u>
Liabilities:				
Accounts payable	\$ 193,252	198,414	193,252	198,414
Due to other agencies	348,604	925,813	726,891	547,526
Total assets	<u>\$ 541,856</u>	<u>1,124,227</u>	<u>920,143</u>	<u>745,940</u>
Other Agency Funds				
Assets:				
Cash and cash equivalents	\$ 1,315,533	28,900,119	28,702,886	1,512,766
Accounts receivable	2,426,033	14,772,877	14,814,412	2,384,498
Inventory	5,839	-	3,254	2,585
Total assets	<u>\$ 3,747,405</u>	<u>43,672,996</u>	<u>43,520,552</u>	<u>3,899,849</u>
Liabilities:				
Accounts payable	\$ 74,290	291,380	340,919	24,751
Due to other governments	2,325,252	-	292	2,324,960
Due to other agencies	1,347,863	880,267	677,992	1,550,138
Total liabilities	<u>\$ 3,747,405</u>	<u>1,171,647</u>	<u>1,019,203</u>	<u>3,899,849</u>
Total - Agency Funds				
Assets:				
Cash and cash equivalents	\$ 1,315,533	33,418,191	33,220,958	1,512,766
Accounts receivable	2,859,457	18,968,522	18,697,541	3,130,438
Inventory	5,839	-	3,254	2,585
Total assets	<u>\$ 4,180,829</u>	<u>52,386,713</u>	<u>51,921,753</u>	<u>4,645,789</u>
Liabilities:				
Accounts payable	\$ 267,542	489,794	534,171	223,165
Due to other governments	2,325,252	-	292	2,324,960
Due to other agencies	1,696,467	1,806,080	1,404,883	2,097,664
Total liabilities	<u>\$ 4,289,261</u>	<u>2,295,874</u>	<u>1,939,346</u>	<u>4,645,789</u>

CITY OF NEWPORT NEWS, VIRGINIA
Combining Statement of Net Assets
Non-Major Component Units
June 30, 2006

Assets	Peninsula Airport Commission	Economic and Industrial Development Authorities	Totals
Current Assets:			
Cash and cash equivalents	\$ 3,897,987	3,650,359	7,548,346
Restricted cash and investments	-	49,564,975	49,564,975
Receivables:			
Accounts	1,067,351	151,982	1,219,333
Loans	-	117,080	117,080
Mortgages	-	139,974	139,974
Primary government	235,000	-	235,000
Commonwealth of Virginia	-	4,150,000	4,150,000
Net investment in direct financing leases	-	1,306,875	1,306,875
Inventories	67,398	-	67,398
Other current assets	5,000	-	5,000
Total current assets	<u>5,272,736</u>	<u>59,081,245</u>	<u>64,353,981</u>
Restricted cash and investments	12,805,280	446,554	13,251,834
Receivables:			
Loans	-	551,861	551,861
Mortgages	-	844,808	844,808
Notes	-	3,700,000	3,700,000
Primary government	5,125,000	-	5,125,000
Commonwealth of Virginia	-	19,010,000	19,010,000
Land held for lease or resale	-	16,522,873	16,522,873
Net investment in direct financing leases	-	14,787,664	14,787,664
Other noncurrent assets	194,923	1,043,979	1,238,902
Property, plant and equipment:			
Land	5,712,070	-	5,712,070
Construction in progress	7,057,055	40,474,299	47,531,354
Infrastructure	-	1,521,049	1,521,049
Buildings	-	99,102,130	99,102,130
Improvements	-	10,267,249	10,267,249
Airfield	57,665,698	-	57,665,698
Terminal	37,689,772	-	37,689,772
Trailer park and rental units	2,031,344	-	2,031,344
Machinery and equipment	3,304,447	96,674	3,401,121
Accumulated depreciation	(41,484,687)	(15,652,921)	(57,137,608)
Total assets	<u>\$ 95,373,638</u>	<u>251,797,464</u>	<u>347,171,102</u>
	Liabilities		
Current Liabilities			
Accounts payable	\$ 214,676	1,749,809	1,964,485
Accrued liabilities	466,773	268,547	735,320
Deposits/deferred revenue	37,908	39,797	77,705
Due to primary government	-	861,429	861,429
General obligation bonds payable - due within one year	389,772	9,646,983	10,036,755
Total current liabilities	<u>1,109,129</u>	<u>12,566,565</u>	<u>13,675,694</u>
Due to primary government	-	16,067,642	16,067,642
Due to Newport News Public Schools	-	347,877	347,877
General obligation bonds payable	17,672,015	183,379,137	201,051,152
Total liabilities	<u>18,781,144</u>	<u>212,361,221</u>	<u>231,142,365</u>
	Net Assets		
Invested in capital assets, net of related debt	53,913,912	30,024,240	83,938,152
Restricted for:			
Capital projects	-	2,834,062	2,834,062
Capital loans	12,805,168	1,272,829	14,077,997
Unrestricted	9,873,414	5,305,112	15,178,526
Total net assets	<u>76,592,494</u>	<u>39,436,243</u>	<u>116,028,737</u>
Total liabilities and net assets	<u>\$ 95,373,638</u>	<u>251,797,464</u>	<u>347,171,102</u>

CITY OF NEWPORT NEWS, VIRGINIA
Combining Statement of Revenues, Expenses and Changes in Net Asset
Non-Major Component Units
Year ended June 30, 2006

	Peninsula Airport Commission	Economic and Industrial Development Authorities	Totals
Operating revenues:			
Charges for services	\$ 6,429,107	-	6,429,107
Parking contributions	-	-	-
Property rentals	-	9,621,752	9,621,752
Land sales	-	297,206	297,206
Intergovernmental-PAC	-	147,150	147,150
Intergovernmental-primary government	-	4,585,029	4,585,029
Total operating revenues	<u>6,429,107</u>	<u>14,651,137</u>	<u>21,080,244</u>
Operating expenses:			
Cost of land sold	-	203,041	203,041
Personal services	3,077,752	273,755	3,351,507
Contractual services	193,952	1,968,964	2,162,916
Materials and supplies	1,378,958	501,530	1,880,488
Depreciation and amortization	3,312,906	2,539,313	5,852,219
Real estate commissions	-	35,167	35,167
Rental expenses	-	448,442	448,442
Miscellaneous	764,291	438,385	1,202,676
Total operating expenses	<u>8,727,859</u>	<u>6,408,597</u>	<u>15,136,456</u>
Operating income (loss)	<u>(2,298,752)</u>	<u>8,242,540</u>	<u>5,943,788</u>
Nonoperating revenues (expenses)			
Interest revenue	475,074	1,323,204	1,798,278
Bond and admin fee income	-	320,034	320,034
Interest expense	(415,943)	(6,033,630)	(6,449,573)
Letter of credit and trustee fee:	-	(107,406)	(107,406)
Amortization - bond costs	(11,741)	-	(11,741)
Other revenues (expenses)	(1,362)	30,540	29,178
Nonoperating expenses, net	<u>46,028</u>	<u>(4,467,258)</u>	<u>(4,421,230)</u>
Capital contributions, net	<u>5,696,641</u>	<u>-</u>	<u>5,696,641</u>
Change in net assets	<u>3,443,917</u>	<u>3,775,282</u>	<u>7,219,199</u>
Net assets at June 30, 2005	<u>73,148,577</u>	<u>35,660,961</u>	<u>108,809,538</u>
Net assets at June 30, 2006	<u>\$ 76,592,494</u>	<u>39,436,243</u>	<u>116,028,737</u>

CITY OF NEWPORT NEWS, VIRGINIA
Combining Statement of Cash Flows
Non-Major Component Units
Year ended June 30, 2006

	Peninsula Airport Commission	Economic and Industrial Development Authorities	Totals
Cash flows from operating activities			
Receipts from customers	\$ 6,356,427	14,568,366	20,924,793
Receipts from land sales and new loans, net of settlement charge:	-	157,206	157,206
Payments to suppliers	(2,331,920)	(3,207,121)	(5,539,041)
Payments to employees:	(3,087,397)	(273,755)	(3,361,152)
Net cash provided by operating activities:	<u>937,110</u>	<u>11,244,696</u>	<u>12,181,806</u>
Cash flows from capital and related financing activities			
Acquisition of capital assets	(7,931,453)	(29,214,763)	(37,146,216)
Capital contributions, net	6,608,230	-	6,608,230
Proceeds from issuance of bonds and industrial revenue bond:	10,000,000	52,895,414	62,895,414
Repayment and retirement of industrial revenue bonds and notes payable:	(293,494)	(7,919,742)	(8,213,236)
Proceeds from Newport News Public School:	-	31,354	31,354
Proceeds from primary government:	-	549,842	549,842
Payment to primary government:	-	(1,027,952)	(1,027,952)
Bond costs	(1,492)	(725,686)	(727,178)
Interest paid	(445,943)	(6,029,516)	(6,475,459)
Other revenue, net	-	243,168	243,168
Net cash used in capital and related financing activities:	<u>7,935,848</u>	<u>8,802,119</u>	<u>16,737,967</u>
Cash flows from investing activities			
Net investment in direct financing lease:	-	4,524,428	4,524,428
Interest received	468,025	1,312,297	1,780,322
Decrease in restricted investments, net:	(10,454,603)	-	(10,454,603)
Other investments	-	-	-
Net cash provided by investing activities:	<u>(9,986,578)</u>	<u>5,836,725</u>	<u>(4,149,853)</u>
Increase (decrease) in cash and cash equivalents at beginning of year:	<u>(1,113,620)</u>	<u>25,883,540</u>	<u>24,769,920</u>
Cash, cash equivalents and restricted cash at beginning of year:	<u>5,011,607</u>	<u>27,755,754</u>	<u>32,767,361</u>
Cash, cash equivalents and restricted cash at end of year:	<u>\$ 3,897,987</u>	<u>53,639,294</u>	<u>57,537,281</u>
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ (2,298,752)	8,242,539	5,943,787
Adjustment to reconcile operating income to cash provided by operating activities			
Depreciation	3,312,906	2,539,313	5,852,219
Write-off of construction in progress:	-	121,818	121,818
Changes in assets and liabilities:			
Loans receivable	-	(140,000)	(140,000)
Mortgages receivable	-	148,487	148,487
Other receivables	(71,318)	93,932	22,614
Inventories	(13,470)	203,041	189,571
Other assets (expenses), net	11,220	-	11,220
Accounts payable and accrued liabilities:	(3,476)	(65,865)	(69,341)
Construction accounts payable	-	61,634	61,634
Deferred revenue	-	39,797	39,797
Net cash provided by operating activities:	<u>\$ 937,110</u>	<u>11,244,696</u>	<u>12,181,806</u>
Supplemental disclosure:			
Noncash capital activities:			
Payment by State on VASCIC bonds:	\$ -	3,940,000	3,940,000
Noncash investing and financing activities:			
Construction costs financed by accounts payable:	\$ 115,836	-	115,836
Contributed capital funded by accounts receivable:	636,671	-	636,671

STATISTICAL SECTION

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

<u>Contents</u>	<u>Page</u>
Financial Trends These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time.	S-1
Revenue Capacity These schedules contain information to help the reader assess the factors affecting the city's ability to generate its property and sales taxes.	S-5
Debt Capacity These schedules present information to help the reader assess the affordability of the city's current level of outstanding debt and the city's ability to issue additional debt in the future.	S-10
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place and to help make comparisons over time and with other governments.	S-13
Operating Information These schedules contain information about the city's operations and resources to help the reader understand how the city's financial information relates to the services the city provides and the activities it performs.	S-15

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The city implemented Statement 34 in 2002; schedules presenting government-wide information includes information beginning in that year.

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

	Fiscal Year				
	2006	2005	2004	2003	2002
Governmental activities					
Invested in capital assets, net of related debt	\$175,306,479	\$162,580,785	\$126,254,500	\$124,001,270	\$143,341,486
Restricted	1,521,091	3,998,951	34,052,310	28,883,536	27,651,803
Unrestricted	14,603,368	30,067,425	35,374,896	43,581,266	24,243,772
Total governmental activities net assets	<u>\$191,430,938</u>	<u>\$196,647,161</u>	<u>\$195,681,706</u>	<u>\$196,466,072</u>	<u>\$195,237,061</u>
Business-type activities					
Invested in capital assets, net of related debt	\$264,939,418	\$249,491,400	\$224,842,179	\$204,642,226	\$195,401,562
Restricted	225,000	225,000	16,963,485	23,401,614	18,903,706
Unrestricted	18,150,853	16,912,260	10,242,607	9,443,893	11,949,775
Total business-type activities net assets	<u>\$283,315,271</u>	<u>\$266,628,660</u>	<u>\$252,048,271</u>	<u>\$237,487,733</u>	<u>\$226,255,043</u>
Primary government					
Invested in capital assets, net of related debt	\$440,245,897	\$412,072,185	\$351,096,679	\$328,643,496	\$338,743,048
Restricted	1,746,091	4,223,951	51,015,795	52,285,150	46,555,509
Unrestricted	32,754,221	46,979,685	45,617,503	53,025,159	36,193,547
Total primary government net assets	<u>\$474,746,209</u>	<u>\$463,275,821</u>	<u>\$447,729,977</u>	<u>\$433,953,805</u>	<u>\$421,492,104</u>

Note: The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002.

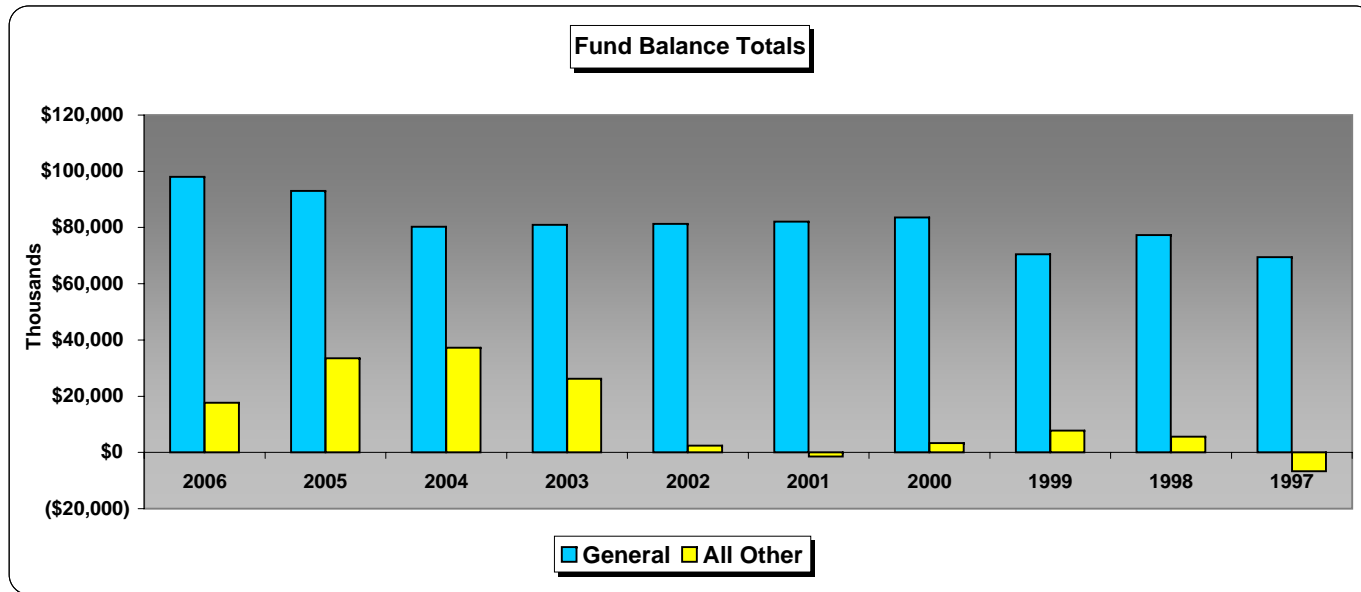
City of Newport News, Virginia
Changes in Net Assets
Last Five Fiscal Years
(Accrual basis of accounting)

	Fiscal Year				
	2006	2005	2004	2003	2002
Program revenues					
Governmental activities:					
Charges for services:					
Public works	\$26,160,999	\$23,453,616	\$22,952,047	\$21,937,252	\$21,192,265
All others	\$24,758,610	24,671,063	22,932,430	21,339,768	20,110,042
Operating grants and contributions	43,861,201	59,841,991	49,539,479	47,548,988	44,083,309
Capital grants and contributions	2,970,950	11,326,181	13,693,887	985,347	1,914,845
Total governmental activities program revenues	<u>97,751,760</u>	<u>119,292,851</u>	<u>109,117,843</u>	<u>91,811,355</u>	<u>87,300,461</u>
Business-type activities:					
Charges for services	72,397,545	64,692,616	63,863,831	59,623,977	59,617,522
Total business-type activities program revenues	<u>72,397,545</u>	<u>64,692,616</u>	<u>63,863,831</u>	<u>59,623,977</u>	<u>59,617,522</u>
Total primary government program revenues	<u>\$170,149,305</u>	<u>\$183,985,467</u>	<u>\$172,981,674</u>	<u>\$151,435,332</u>	<u>\$146,917,983</u>
Expenses					
Governmental activities:					
General government	\$64,991,195	\$57,053,132	\$75,766,012	\$57,068,233	\$47,277,252
Judicial administration	6,397,049	6,060,839	5,283,193	4,848,126	5,420,075
Public safety	100,481,015	96,637,983	87,907,570	77,928,537	75,902,430
Public works	63,695,077	54,351,940	49,364,947	46,393,246	49,191,819
Health and welfare	53,362,500	53,692,902	51,593,737	47,748,437	43,764,515
Education	104,054,463	107,463,439	95,799,045	92,183,490	95,839,841
Parks, recreation and culture	29,934,662	27,059,823	26,372,043	24,866,503	22,913,528
Community development	11,168,279	10,455,402	6,568,809	7,169,887	7,456,287
Interest on long-term debt	17,169,976	19,109,084	19,083,650	18,458,814	19,441,810
Total governmental activities expenses	<u>451,254,216</u>	<u>431,884,544</u>	<u>417,739,006</u>	<u>376,665,273</u>	<u>367,207,557</u>
Business-type activities:					
Public utilities	51,394,362	46,037,659	45,060,323	44,748,056	41,670,241
Parking authority	199,461	262,691	265,020	264,403	315,084
Total business-type activities expenses	<u>51,593,823</u>	<u>46,300,350</u>	<u>45,325,343</u>	<u>45,012,459</u>	<u>41,985,325</u>
Total primary government expenses	<u>\$502,848,039</u>	<u>\$478,184,894</u>	<u>\$463,064,349</u>	<u>\$421,677,732</u>	<u>\$409,192,882</u>
Net Revenue/(Expenditures)					
Governmental activities	(353,502,456)	(312,591,693)	(308,621,163)	(284,853,918)	(279,907,096)
Business-type activities	20,803,722	18,392,266	18,538,488	14,611,518	17,632,197
Total primary government	<u>(\$332,698,734)</u>	<u>(\$294,199,427)</u>	<u>(\$290,082,675)</u>	<u>(\$270,242,400)</u>	<u>(\$262,274,899)</u>
General revenues and Other Changes in Net Assets					
Governmental activities:					
Property taxes	187,912,894	172,575,384	159,841,724	154,600,404	145,591,688
Other taxes	89,170,125	83,396,354	80,131,054	74,799,019	68,401,249
Unrestricted grants and contributions	45,473,865	37,699,447	39,506,422	40,336,019	38,959,068
Investment earnings	5,007,664	3,116,612	4,211,328	3,014,372	3,763,911
Miscellaneous	11,587,686	8,013,660	5,713,465	4,399,115	7,127,513
Transfers	9,134,000	9,134,000	9,134,001	8,934,000	8,674,000
Total governmental activities	<u>348,286,234</u>	<u>313,935,457</u>	<u>298,537,994</u>	<u>286,082,929</u>	<u>272,517,429</u>
Business-type activities:					
Investment earnings	1,240,697	485,453	301,763	390,821	825,870
Miscellaneous	3,753,852	4,836,670	4,854,288	5,164,351	4,045,092
Transfers	(9,134,000)	(9,134,000)	(9,134,001)	(8,934,000)	(8,674,000)
Total business-type activities	<u>(4,139,451)</u>	<u>(3,811,877)</u>	<u>(3,977,950)</u>	<u>(3,378,828)</u>	<u>(3,803,038)</u>
Total primary government	<u>\$344,146,783</u>	<u>\$310,123,580</u>	<u>\$294,560,044</u>	<u>\$282,704,101</u>	<u>\$268,714,391</u>
Changes in Net Assets					
Governmental activities	(5,216,222)	1,343,764	(10,083,169)	1,229,011	(7,389,667)
Business-type activities	16,664,271	14,580,389	14,560,538	11,232,690	13,829,159
Total primary government	<u>\$11,448,049</u>	<u>\$15,924,153</u>	<u>\$4,477,369</u>	<u>\$12,461,701</u>	<u>\$6,439,492</u>

Note: The City began to report accrual information when it implemented GASB 34 in fiscal year 2002.

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

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General fund										
Reserved	\$6,356,403	\$7,284,539	\$6,911,653	\$5,940,726	\$5,365,065	\$4,761,194	\$2,786,736	\$2,584,466	\$18,097,521	\$4,442,079
Unreserved	91,686,630	85,724,284	73,370,464	74,999,428	75,929,505	77,330,445	80,760,712	67,864,748	59,265,279	65,064,997
Total general fund	<u>\$98,043,033</u>	<u>\$93,008,823</u>	<u>\$80,282,117</u>	<u>\$80,940,154</u>	<u>\$81,294,570</u>	<u>\$82,091,639</u>	<u>\$83,547,448</u>	<u>\$70,449,214</u>	<u>\$77,362,800</u>	<u>\$69,507,076</u>
All other governmental funds										
Reserved	\$21,873,135	\$28,361,951	\$10,399,097	\$11,101,083	\$21,630,621	\$20,238,169	\$8,152,258	\$5,516,879	\$10,152,103	\$18,978,248
Unreserved, reported in:										
Special revenue fund	8,845,238	10,597,971	12,155,851	9,562,264	9,538,311	8,914,930	5,317,164	2,256,555	5,060,206	863,080
Debt service fund	319,453	1,137,289	2,524,220	2,501,364	1,789,944	1,554,333	136,351	481,572	474,217	705,936
Capital project fund	2,749,848	1,253,898	1,408,532	369,835	622,142	(32,103,900)	(10,318,916)	(529,077)	(10,061,047)	(27,272,445)
Bond fund	(16,143,636)	(7,897,965)	10,795,788	2,620,832	(31,133,143)	-	-	-	-	-
Total all other governmental funds	<u>\$17,644,038</u>	<u>\$33,453,144</u>	<u>\$37,283,488</u>	<u>\$26,155,378</u>	<u>\$2,447,875</u>	<u>(\$1,396,468)</u>	<u>\$3,286,857</u>	<u>\$7,725,929</u>	<u>\$5,625,479</u>	<u>(\$6,725,181)</u>



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

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Revenues										
General Property Taxes	\$189,477	\$170,347	\$159,876	\$153,829	\$145,514	\$138,817	\$135,221	\$124,845	\$123,282	\$116,556
Other Local Taxes	89,170	83,396	80,131	74,799	68,401	66,196	61,987	57,621	55,344	52,746
Licenses and Permits	3,487	3,706	2,690	2,949	3,015	2,383	2,689	2,340	2,216	1,663
Fines and Forfeitures	2,079	2,187	2,231	2,001	1,806	1,554	1,558	1,740	1,399	1,312
Interest and Rents	4,987	3,129	4,206	3,006	3,747	5,882	5,926	4,534	4,640	5,294
Charges for Services	41,289	37,981	36,836	35,105	33,699	32,351	30,006	30,134	29,557	28,379
Recovered Costs	7,551	8,737	6,818	6,171	7,603	7,153	7,041	6,990	7,484	6,560
Intergovernmental	90,199	103,533	102,439	86,444	83,490	65,079	66,028	62,466	58,904	49,782
Miscellaneous	6,714	3,662	2,983	2,983	2,777	3,735	5,283	2,725	20,913	5,508
Total Revenues	434,953	416,678	398,304	367,287	350,052	323,150	315,739	293,395	303,739	267,800
Expenditures										
General Government	57,389	46,546	44,281	46,578	39,479	20,739	19,424	17,523	17,824	29,718
Judicial Administration	5,517	5,184	4,968	4,626	4,846	4,607	4,510	4,261	3,812	3,493
Public Safety	90,508	86,910	82,528	75,105	73,439	70,917	66,676	63,631	63,574	59,059
Public Works	49,915	42,017	40,108	38,164	38,069	33,959	31,937	32,557	39,281	31,677
Health and Welfare	48,989	44,957	48,845	46,483	42,868	38,889	39,792	42,343	38,065	31,543
Education	104,848	109,639	99,397	102,828	99,113	75,144	88,659	79,584	68,332	65,822
Parks Recreation Culture	24,412	21,822	20,732	19,557	19,508	18,863	17,282	15,656	14,413	12,931
Community Development	9,573	8,932	6,040	6,813	6,679	4,875	4,724	4,888	5,367	5,184
Non-Departmental	-	-	-	-	-	17,847	16,427	18,796	15,063	11,263
Debt Service:										
Principal	31,156	38,750	26,536	24,422	22,084	24,017	21,400	19,188	17,732	15,992
Interest	17,281	20,625	19,371	18,313	19,014	18,576	17,928	18,034	17,365	16,215
Capital Outlay	52,626	25,945	33,992	29,551	28,454	18,042	20,161	16,387	31,015	46,838
Bond Issuance Cost	475	-	-	-	-	-	-	-	-	-
Total Expenditures	492,689	451,327	426,798	412,440	393,553	346,475	348,920	332,848	331,843	329,735
Excess (deficiency) of Revenues Over (under) Expenditures	(57,736)	(34,649)	(28,494)	(45,153)	(43,501)	(23,325)	(33,181)	(39,453)	(28,104)	(61,935)
Other Financing Sources (Uses)										
Transfer In	51,963	44,599	40,261	38,638	37,100	51,330	44,839	43,413	41,757	49,480
Transfer Out	(42,829)	(35,465)	(34,051)	(29,704)	(28,426)	(44,336)	(37,165)	(36,160)	(34,336)	(37,799)
Payment to Refund Bonds	(30,533)	(11,785)	(71,635)	(73,517)	-	-	-	-	-	-
Premium on Refunded Bonds	2,131	1,109	644	-	-	-	-	-	-	-
Refund Bonds Proceeds	28,020	12,720	71,635	-	-	-	-	-	-	-
Bond and Note Proceeds	37,873	32,367	29,312	133,091	37,875	8,414	30,905	30,649	40,890	33,959
Premium on Bonds Issuance	985	-	-	-	-	-	-	-	-	-
Capital Leases	-	-	388	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	47,610	43,545	36,554	68,508	46,549	15,408	38,579	37,902	48,311	45,640
Net Change in Fund Balance	(\$10,126)	\$8,896	\$8,060	\$23,355	\$3,048	(\$7,917)	\$5,398	(\$1,551)	\$20,207	(\$16,295)
Debt Service as a Percentage of Noncapital Expenditures	11.0%	14.0%	11.7%	11.2%	11.3%	13.0%	12.0%	11.8%	11.7%	11.4%

Note: Prior to GASB 34 implementation in fiscal year 2002, contributions to School component unit appeared as a transfer instead of Education expense.

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

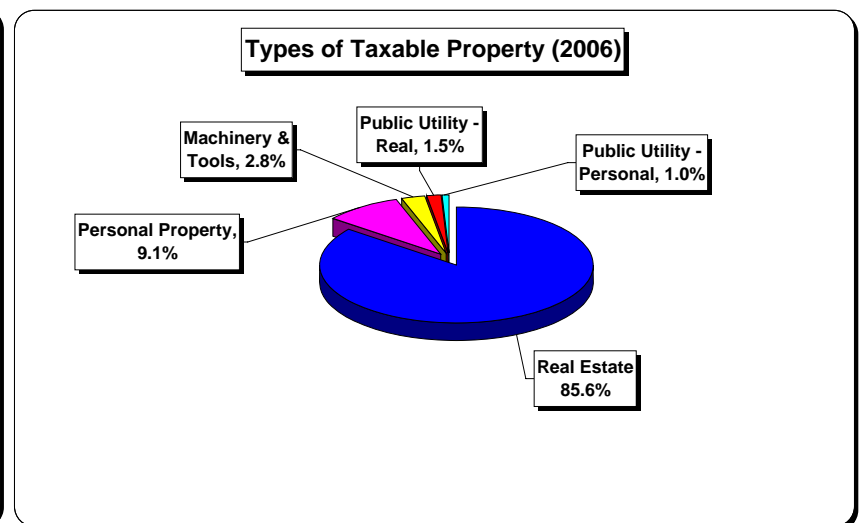
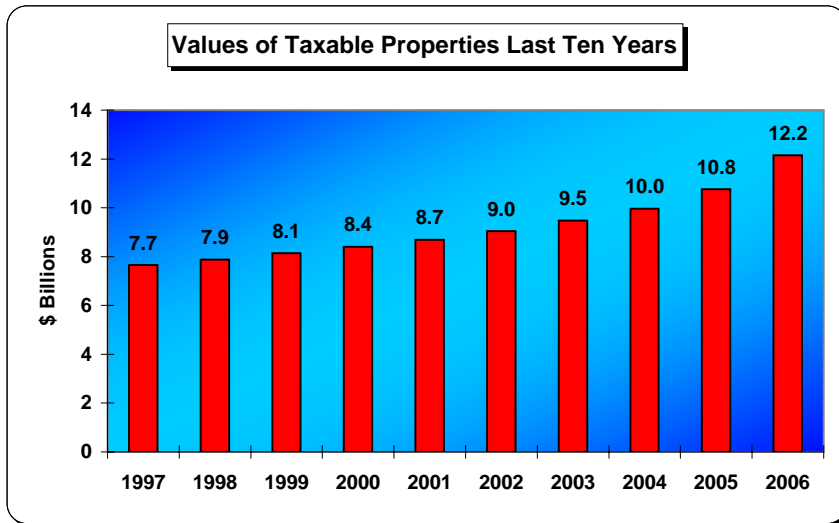
	Fiscal Year										% Change 1997-2006
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	
Property tax	\$189,477,417	\$170,347,467	\$159,875,655	\$153,828,500	\$145,513,560	\$138,816,999	\$135,220,883	\$124,845,176	\$123,282,082	\$116,556,000	62.6%
E911 service	2,750,556	2,737,853	2,788,546	2,937,283	2,939,559	2,621,285	3,314,742	2,404,268	2,053,326	1,577,780	74.3%
Sales tax	22,432,446	20,955,339	20,294,801	18,801,952	17,777,556	17,117,654	16,080,733	14,913,685	13,869,163	13,308,455	68.6%
Utility tax	9,254,101	9,515,933	9,345,342	9,608,733	9,027,951	10,331,465	9,870,179	8,634,062	9,123,213	9,427,385	-1.8%
Cellular telephone tax	3,117,614	2,848,339	2,615,736	2,357,579	1,888,160	1,146,206	921,494	560,190	427,300	452,668	588.7%
Consumption tax	774,586	641,699	680,202	688,401	623,617	296,476	-	-	-	-	261.3%
Business license tax	14,701,673	13,391,073	12,199,360	11,375,961	11,373,050	10,987,284	10,575,628	10,042,554	9,875,113	9,510,359	54.6%
Rental car tax	932,481	870,813	898,190	792,298	763,427	757,137	909,097	478,333	602,714	423,337	120.3%
Franchise license tax	1,732,167	1,670,013	1,606,670	1,540,204	1,604,246	1,630,903	1,402,825	1,328,162	1,606,774	1,041,876	66.3%
Cable television tax	2,108,165	2,006,039	2,087,952	2,088,184	1,857,017	1,696,050	1,666,172	1,682,000	1,590,992	1,393,981	51.2%
Motor vehicle license tax	3,585,645	3,585,609	3,531,624	3,436,659	3,385,495	3,271,853	3,202,849	3,098,721	3,021,926	2,976,137	20.5%
Bank stock tax	600,317	532,019	544,584	556,238	719,430	776,332	629,921	597,047	502,100	497,492	20.7%
Recordation and wills tax	2,535,995	1,969,391	1,052,317	885,362	769,022	603,032	467,717	1,274,821	1,158,736	1,092,617	132.1%
Tobacco tax	4,622,565	4,639,855	5,090,983	3,720,193	2,929,615	2,933,042	3,113,529	3,271,271	2,455,615	2,325,592	98.8%
Hotel and motel room tax	2,802,362	2,686,120	2,724,109	2,458,217	1,713,638	1,566,968	1,541,726	1,449,350	1,295,422	1,153,218	143.0%
Restaurant food tax	16,649,811	14,779,660	14,092,861	12,987,152	10,449,262	9,945,796	7,931,133	7,512,250	7,125,769	6,891,962	141.6%
Amusement tax	569,643	566,599	577,777	564,602	580,204	514,713	358,844	374,627	635,653	672,707	-15.3%
Total Taxes	\$278,647,544	\$253,743,821	\$240,006,709	\$228,627,518	\$213,914,809	\$205,013,195	\$197,207,472	\$182,466,517	\$178,625,898	\$169,301,566	64.6%

Note: Consumption tax was implemented in FY 2001, therefore the percent change is based on FY 2001 figure.

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

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Utility		Less: Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value
				Real Estate	Personal Property				
1997	6,287,229	727,512	311,347	211,358	120,298	-	7,657,744	-	-
1998	6,435,865	745,373	346,396	214,786	132,852	-	7,875,272	-	-
1999	6,648,402	770,421	365,863	213,453	136,635	-	8,134,775	-	-
2000	6,841,127	836,900	367,706	214,091	137,253	-	8,397,077	-	-
2001	7,082,449	882,264	364,748	216,272	149,253	-	8,694,986	-	-
2002	7,406,809	904,361	356,746	224,419	157,451	-	9,049,786	-	-
2003	7,807,813	939,795	348,958	220,333	157,950	-	9,474,849	-	-
2004	8,301,266	962,822	343,020	209,128	151,551	-	9,967,787	-	-
2005	9,042,610	1,024,049	337,032	204,572	148,487	-	10,756,750	-	-
2006	12,887,570	1,155,202	343,770	186,890	117,131	(2,538,300)	12,152,263	1.59	14,690,563

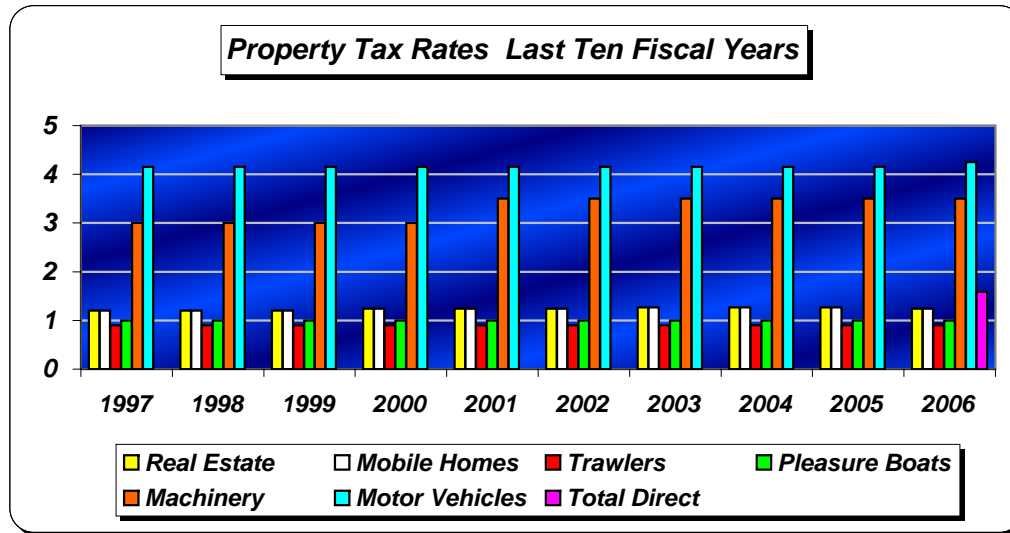
Note: Prior to the implementation of GASB 44 in FY 2006, assessed values were presented net of tax-exempt property.
Prior to the implementation of GASB 44 in FY06, total direct rate and estimated actual taxable value was not required.



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

City Direct Rates							
Fiscal Year	Real Estate	Mobile Homes	Trawlers	Pleasure Boats	Machinery & Tools	Motor Vehicles	Total Direct Rate
1997	1.20	1.20	0.90	1.00	3.00	4.15	-
1998	1.20	1.20	0.90	1.00	3.00	4.15	-
1999	1.20	1.20	0.90	1.00	3.00	4.15	-
2000	1.24	1.24	0.90	1.00	3.00	4.15	-
2001	1.24	1.24	0.90	1.00	3.50	4.15	-
2002	1.24	1.24	0.90	1.00	3.50	4.15	-
2003	1.27	1.27	0.90	1.00	3.50	4.15	-
2004	1.27	1.27	0.90	1.00	3.50	4.15	-
2005	1.27	1.27	0.90	1.00	3.50	4.15	-
2006	1.24	1.24	0.90	1.00	3.50	4.25	1.59

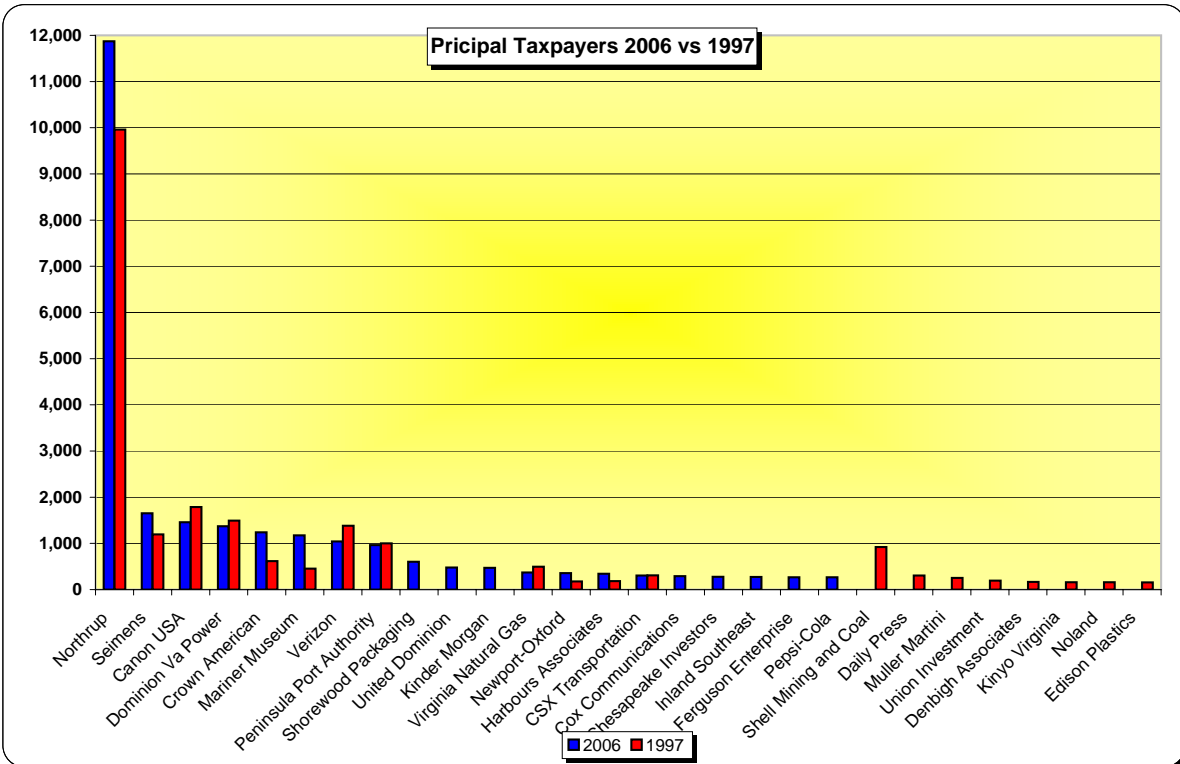
Note: Prior to the implementation of GASB 44 in FY06, total direct rate was not required.



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

	2006		1997	
	Taxable Assessed	Percentage of	Taxable Assessed	Percentage of
	Value	Assessments	Value	Assessments
Northrup Grumman	\$11,872	7.45%	\$9,960	9.52%
Seimens - Bendix Automotive	1,652	1.04%	1,196	1.14%
Canon USA	1,457	0.91%	1,787	1.71%
Dominion Virginia Power	1,373	0.86%	1,493	1.43%
Crown American Financing	1,241	0.78%	617	0.59%
Mariner Museum (Riverside Hospital)	1,173	0.74%	454	0.43%
Verizon	1,041	0.65%	1,382	1.32%
Peninsula Port Authority	963	0.60%	1,001	0.96%
Shorewood Packaging	602	0.38%	-	-
United Dominion Realty Trust	477	0.30%	-	-
Kinder Morgan Operations LP	471	0.30%	-	-
Virginia Natural Gas	369	0.23%	495	0.47%
Newport-Oxford Associates	357	0.22%	176	0.17%
Harbours Associates	343	0.22%	185	0.18%
CSX Transportation	305	0.19%	309	0.30%
Cox Communications	291	0.18%	-	-
Chesapeake Investors LLC	278	0.17%	-	-
Inland Southeast Denbigh Village	272	0.17%	-	-
Ferguson Enterprise	267	0.17%	-	-
Pepsi-Cola Bottling Group	266	0.17%	-	-
Shell Mining and Coal	-	-	921	0.88%
Daily Press	-	-	304	0.29%
Muller Martini Manufacturing	-	-	253	0.24%
Union Investment Company	-	-	193	0.18%
Denbigh Associates	-	-	168	0.16%
Kinyo Virginia	-	-	161	0.15%
Noland	-	-	160	0.15%
Edison Plastics	-	-	157	0.15%
Total	\$25,070	15.73%	\$22,891	19.99%

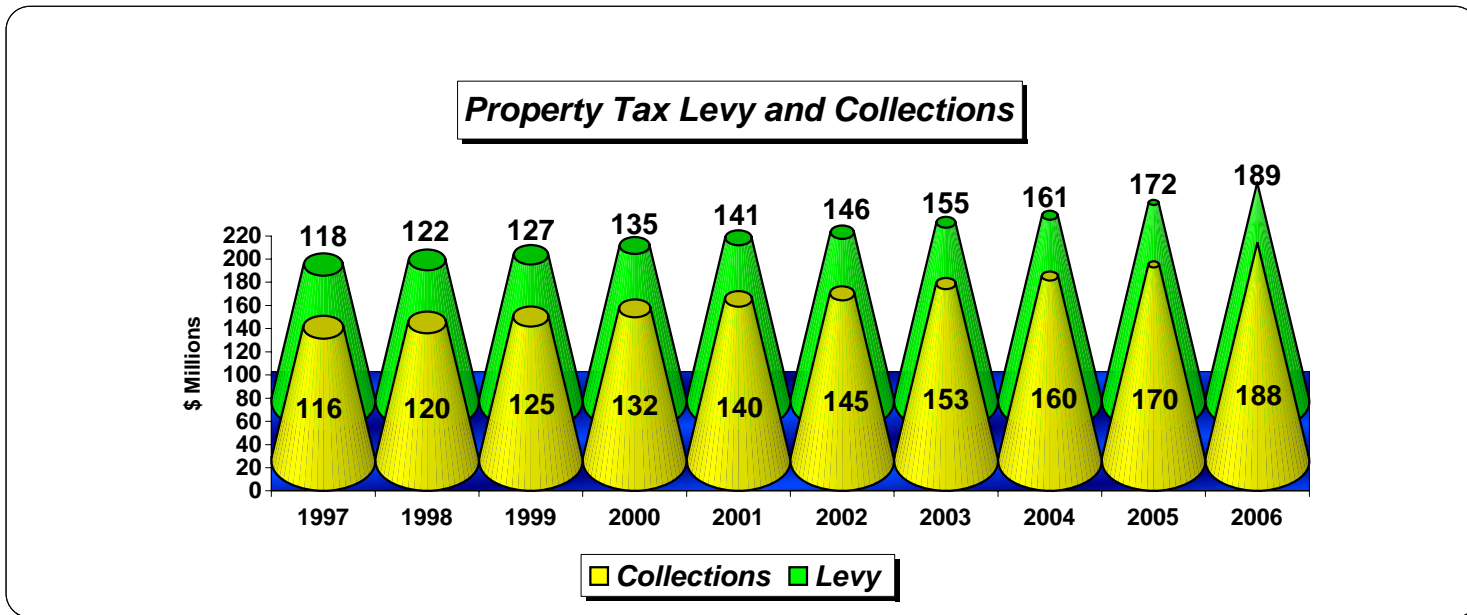
Note: Figures include both personal property and real estate tax assessments for these taxpayers



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

Fiscal Year	Tax Levy	Current Year		Prior Year Amount	Collections in Subsequent Years	Total Collections for Year	
		Amount	% of Levy			Amount	% of Levy
1997	\$118,324	\$109,386	92.4%	\$6,222	-	\$115,608	97.7%
1998	122,272	113,849	93.1%	5,848	-	119,697	97.9%
1999	126,772	118,526	93.5%	6,238	-	124,764	98.4%
2000	134,663	126,097	93.6%	5,724	-	131,821	97.9%
2001	141,339	132,981	94.1%	6,982	-	139,963	99.0%
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	188,055	99.6%	-	-	188,055	99.6%

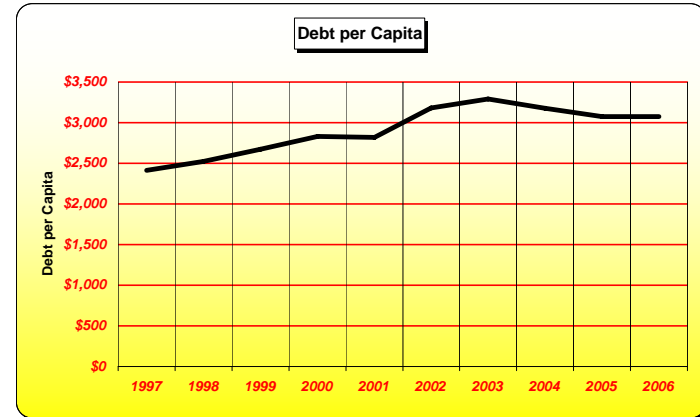
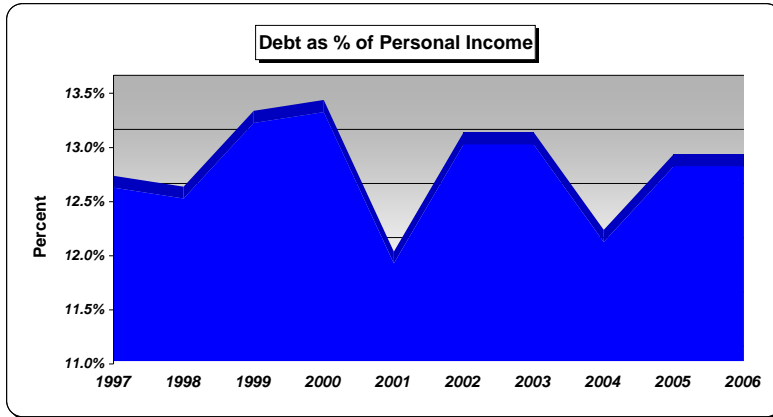
Note: Prior to the implementation of GASB 44 in FY 2006, collections in subsequent years was not required to be reported by tax year. Beginning in FY 2007 collections in subsequent years will be included for FY 2006 and the years thereafter.



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

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Population	186,000	185,240	185,200	181,640	180,305	180,150	185,700	184,600	182,190	183,185
Personal Income	-	-	4,872,092	4,598,879	4,416,298	4,266,810	3,956,398	3,737,027	3,685,733	3,515,472
Governmental Activities:										
General Oboigation Bonds	401,020	394,354	399,243	397,114	363,037	347,170	362,214	352,035	339,323	315,615
Guaranty of Peninsula Airport Bonds	5,800	6,000	6,245	6,450	6,640	12,700	6,325	6,440	6,550	6,650
Literary Fund	2,895	3,564	4,233	4,903	5,429	5,219	5,477	5,866	6,440	7,013
Capital Leases	219	293	360	45	122	184	247	291	61	93
Bond Anticipation Notes	-	-	-	-	20,000	-	-	-	-	-
Business-type Activities:										
Public Utility Bonds	152,675	165,220	178,025	189,110	178,215	142,525	151,305	128,990	107,615	112,600
Total Primary Government	\$562,609	\$569,431	\$588,106	\$597,622	\$573,443	\$507,798	\$525,568	\$493,622	\$459,989	\$441,971
Percentage of Personal Income	0.0%	0.0%	12.1%	13.0%	13.0%	11.9%	13.3%	13.2%	12.5%	12.6%
Net Bonded Debt Per Capita	\$3,025	\$3,074	\$3,176	\$3,290	\$3,180	\$2,819	\$2,830	\$2,674	\$2,525	\$2,413

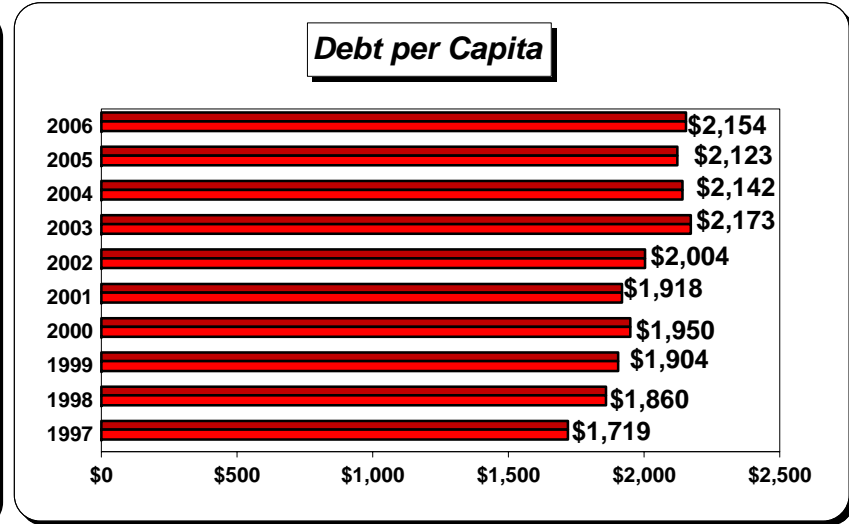
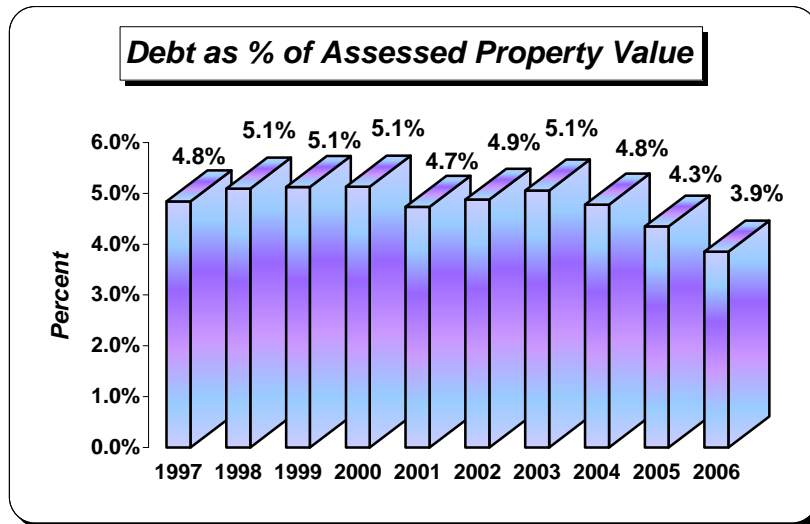
Note: Population figures are derived as follows: 1997 - 2000; 2003 - 2006 City estimates, 2001 Census Bureau, 2002 Virginia Employment Commission
Note: Personal Income figures were not available for FY2005 and FY2006.



**City of Newport News, Virginia
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years**

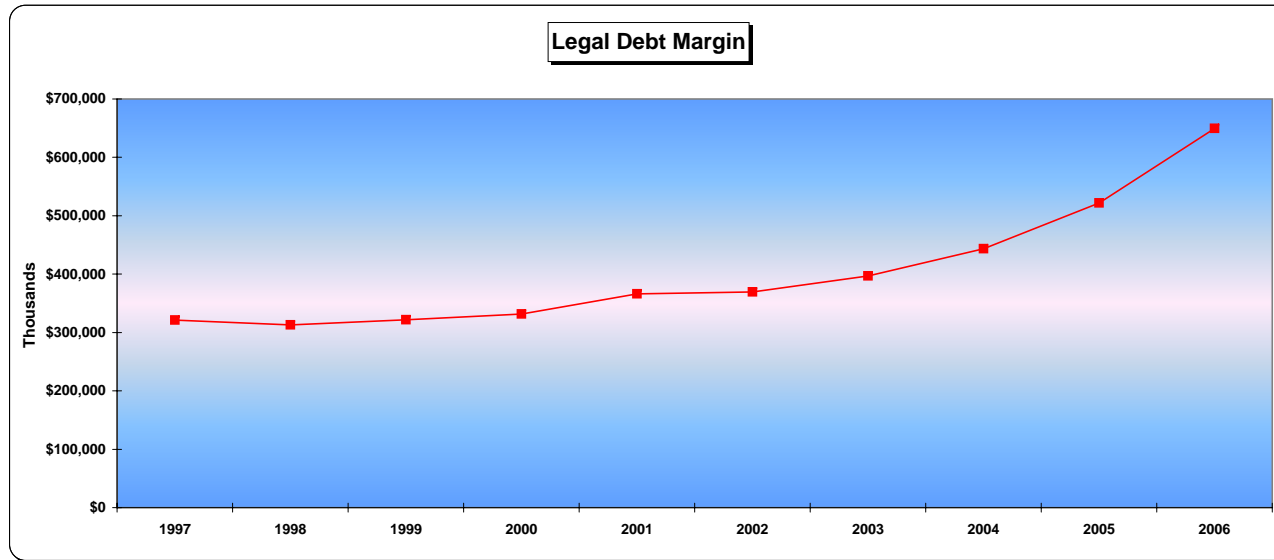
Fiscal Year	Population	Assessed Value of Real Property	General Obligation Bonds	Less Debt Service	Net Bonded Debt	Net Bonded Debt as % of Assessed Valuation	Net Bonded Debt Per Capita
1997	183,185	\$6,501,400	315,615	\$706	\$314,909	4.8%	\$1,719
1998	182,190	6,650,651	339,323	474	338,849	5.1%	1,860
1999	184,600	6,861,855	352,035	481	351,554	5.1%	1,904
2000	185,700	7,055,219	362,214	136	362,078	5.1%	1,950
2001	180,150	7,298,721	347,170	1,567	345,603	4.7%	1,918
2002	180,305	7,406,809	363,037	1,790	361,247	4.9%	2,004
2003	181,640	7,807,813	397,114	2,501	394,613	5.1%	2,173
2004	185,200	8,301,266	399,243	2,524	396,719	4.8%	2,142
2005	185,240	9,042,610	394,354	1,137	393,217	4.3%	2,123
2006	186,000	10,404,207	401,020	319	400,701	3.9%	2,154

Note: Population figures are derived as follows: 1997 - 2000; 2003 - 2006 City estimates, 2001 Census Bureau, 2002 Virginia Employment Commission



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

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Assessed Value of Real Estate:										
General	\$10,404,206,752	\$9,042,610,300	\$8,301,266,000	\$7,807,813,049	\$7,406,809,000	\$7,082,449,000	\$6,841,127,000	\$6,648,402,083	\$6,435,865,000	\$6,290,000,000
Public Service Corporations	186,889,718	204,600,000	209,128,000	220,333,000	224,419,000	216,272,000	214,092,000	213,453,011	214,786,000	211,400,000
Total assessed value	10,591,096,470	9,247,210,300	8,510,394,000	8,028,146,049	7,631,228,000	7,298,721,000	7,055,219,000	6,861,855,094	6,650,651,000	6,501,400,000
Total debt limit (10% of Total Assessed Value)	1,059,109,647	924,721,030	851,039,400	802,814,605	763,122,800	729,872,100	705,521,900	686,185,509	665,065,100	650,140,000
Bonds Outstanding:										
General Obligation	358,855,000	353,330,000	359,055,000	358,345,000	323,890,000	307,535,000	328,430,000	318,155,000	305,510,000	283,045,000
General Obligation: Virginia Public School Authority (VPSA)	9,263,363	10,000,000	10,717,000	11,414,389	12,095,723	12,754,094	7,445,598	7,868,935	8,284,377	8,692,438
General Obligation: Virginia Resources Authority (VRA) Loan Fund	25,121,275	22,668,400	20,452,000	19,731,824	17,918,003	16,238,448	14,179,573	11,781,153	9,454,066	5,815,452
General Obligation: Virginia Municipal Pool Loans (VMPL)	5,337,565	5,912,600	6,577,800	7,622,753	9,132,753	10,642,753	12,157,753	13,670,253	14,945,253	16,457,753
Guaranty of Peninsula Airport Bonds	5,800,000	6,000,000	6,245,000	6,450,000	6,640,000	12,700,000	6,325,000	6,440,000	6,550,000	6,650,000
Literary Fund	2,894,833	3,564,100	4,233,000	4,902,580	5,429,377	5,219,262	5,476,962	5,866,462	6,439,962	7,013,462
Qualified Zone Academy Bonds (QZAB)	2,442,494	2,442,500	2,442,494	-	-	-	-	-	-	-
Bond Anticipation Notes	-	-	-	-	20,000,000	-	-	-	-	-
OPDC General Obligation Bonds	-	-	-	-	-	-	-	560,000	1,130,000	1,605,000
Capital leases	219,145	292,800	360,000	45,405	122,396	184,258	247,074	290,962	61,359	92,506
Amount available in Debt Service Fund	(319,453)	(1,137,300)	(2,524,220)	(2,501,364)	(1,789,944)	(1,566,892)	(136,351)	(481,572)	(474,217)	(705,936)
Total debt outstanding	409,614,222	403,073,100	407,558,074	406,010,587	393,438,308	363,706,923	374,125,609	364,151,193	351,900,800	328,665,675
Legal debt margin	\$649,495,425	\$521,647,930	\$443,481,326	\$396,804,018	\$369,684,492	\$366,165,177	\$331,396,291	\$322,034,316	\$313,164,300	\$321,474,325
Total net debt applicable to the limit as a % of debt limit	61.32%	56.41%	52.11%	49.43%	48.44%	50.17%	46.97%	46.93%	47.09%	49.45%

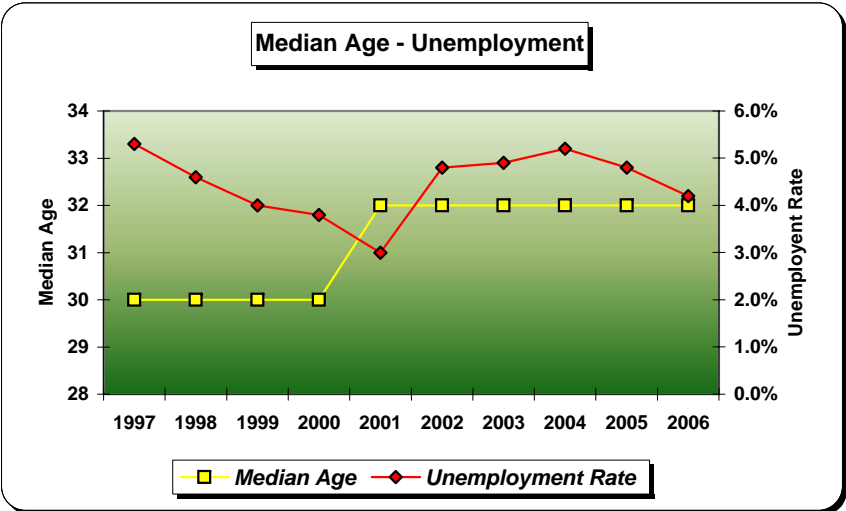
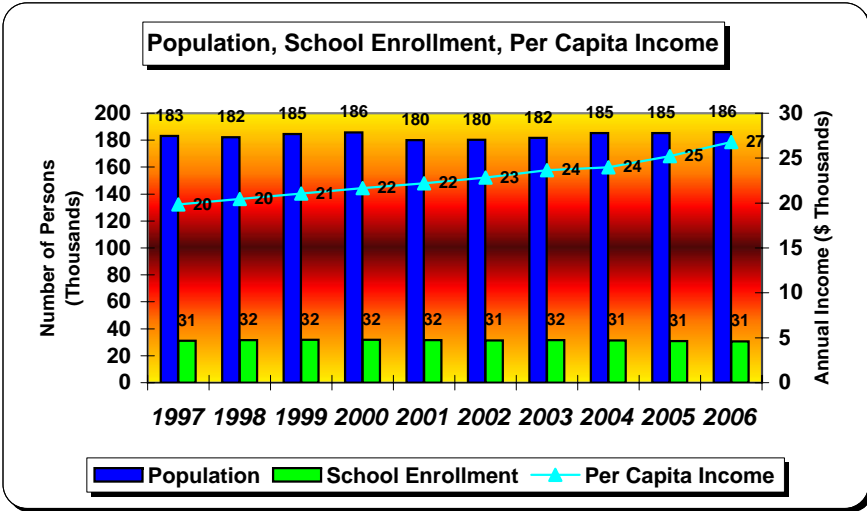


**City of Newport News, Virginia
Demographic and Economic Statistics
Last Ten Fiscal Years**

Fiscal Year	Population	Personal Income (In thousands)	Per Capita Income	Median Age	School Enrollment	Unemployment Rate
1997	183,185	\$3,515,472	\$19,841	30	31,191	5.3%
1998	182,190	3,685,733	20,435	30	31,679	4.6%
1999	184,660	3,737,027	21,048	30	31,853	4.0%
2000	185,700	3,956,398	21,679	30	31,793	3.8%
2001	180,150	4,266,810	22,199	32	31,563	3.0%
2002	180,305	4,416,298	22,849	32	31,440	4.8%
2003	181,640	4,598,879	23,654	32	31,535	4.9%
2004	185,200	4,872,092	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%

Sources:

Population and Age: 1997 - 2000; 2003 - 2006 City of Newport News; 2001 Census Bureau; 2002 Virginia Employment Commission
 Personal Income: 1997 - 2004 Virginia Employment Commission; 2005 - 2006 was not available at year-end.
 Per Capita Income: 1997 - 2000 City of Newport News; 2001 Census Bureau; 2002 - 2005 Bureau of Economic Analysis
 Unemployment Rate: 1997 - 2006 Virginia Employment Commission



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

	2006		1997	
	Employees	% of Total City Employment	Employees	% of Total City Employment
Northrup Grumman	10,000 - 20,000	15.33%	10,000 - 20,000	19.19%
Newport News Public Schools	1,000 - 5,000	3.07%	1,000 - 5,000	3.84%
Riverside Regional Medical Center	1,000 - 5,000	3.07%	1,000 - 5,000	3.84%
City of Newport News	1,000 - 5,000	3.07%	1,000 - 5,000	3.84%
U. S. Department of Defense	1,000 - 5,000	3.07%	1,000 - 5,000	3.84%
U. S. Department of Army & Air Force	1,000 - 5,000	3.07%	500 - 1,000	0.96%
Ferguson Enterprise	1,000 - 5,000	3.07%	-	-
Christopher Newport University	500 - 1,000	0.77%	-	-
APAC Customer Services	500 - 1,000	0.77%	1,000 - 5,000	3.84%
Seimens - Bendix Automotive	500 - 1,000	0.77%	1,000 - 5,000	3.84%
Canon USA	-	-	1,000 - 5,000	3.84%
Lee Temps	-	-	500 - 1,000	0.96%
Total	8,500 - 38,000	36.02%	9,000 - 42,000	47.01%

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

Full-Time City Government Employees as of June 30

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Fund, Function, Activity and Elements										
General Fund:										
General Government Administration:										
Legislative:										
City Council	7	7	7	7	7	7	7	7	7	7
City Clerk	5	5	5	5	5	5	5	5	5	5
General and Financial Administration:										
City Manager	12	12	12	13	12	12	12	12	13	11
Human Resources	18	17	17	16	16	16	16	16	16	16
City Attorney	18	18	17	15	15	15	16	16	16	16
Management/Legislative Services	10	10	10	10	10	10	9	9	8	8
Internal Auditor	7	7	7	7	7	7	7	7	7	7
Commissioner of the Revenue	40	40	40	40	40	40	39	39	37	33
Real Estate Assessor	23	23	23	23	23	23	23	22	22	22
City Treasurer	34	34	34	34	34	34	34	33	33	29
Finance	19	19	19	19	19	19	17	17	17	17
Budget and Evaluation	7	7	7	7	7	5	5	5	5	5
Office of Self-Insurance	9	9	10	9	10	9	9	9	8	7
Purchasing	24	24	24	25	21	21	21	21	21	21
Information Technology	65	65	65	65	65	65	64	64	62	56
Board of Elections:										
Registrar	5	5	5	5	5	5	5	5	5	5
Total General Government Administration	303	302	302	300	296	293	289	287	282	265
Judicial administration:										
Courts:										
Circuit Courts	7	7	7	7	7	7	7	7	6	6
Office of the Magistrate	6	6	6	6	6	6	6	6	6	6
Clerk of the Circuit Court	27	27	27	27	27	27	27	26	24	24
Court Services	2	2	2	2	6	6	6	5	3	3
Commonwealth's Attorney	41	41	41	41	41	41	40	39	38	34
Total Judicial Administration	83	83	83	83	87	87	86	83	77	73
Public Safety:										
Law Enforcement and Traffic Control:										
Police Department	564	539	532	531	526	525	525	479	479	479
Emergency Communications	4	4	4	4	4	3	3	3	3	3
Fire and Rescue Services:										
Fire Department	374	374	374	374	349	349	344	344	344	342
Correction and Detention:										
Sheriff	193	187	181	181	181	181	179	179	177	176
Adult Corrections	72	69	69	71	71	79	78	78	76	76
Juvenile Detention	178	178	178	177	110	100	91	75	73	73
Inspections:										
Codes Compliance	41	42	37	37	37	37	35	35	35	35
Total Public Safety	1,426	1,393	1,375	1,375	1,278	1,274	1,255	1,193	1,187	1,184
Public Works:										
Engineering	97	95	84	84	84	83	82	82	80	79
Project Services	-	1	6	6	6	6	6	6	6	6
Public Works Administration	159	151	148	146	142	142	130	126	125	124
Total Public Works	256	247	238	236	232	231	218	214	211	209
Welfare:										
Social Services Administration	394	390	390	392	392	390	386	363	350	304
Health/City Physician	-	-	-	-	-	-	-	-	2	2
Office of Youth Development	9	9	9	9	9	6	-	-	-	-
Total Welfare	403	399	399	401	401	396	386	363	352	306
Parks and Library:										
Parks and Recreation	112	112	103	98	98	98	98	111	116	100
Parks and Recreation Revolving Fund	89	75	75	74	75	73	72	52	29	30
Library	63	62	59	58	58	58	57	54	52	50
Total Parks, Recreation and Library	264	249	237	230	231	229	227	217	197	180
Community Development:										
Planning and Community Development:										
Development	18	18	17	16	32	32	32	32	32	32
Planning	14	14	14	14	-	-	-	-	-	-
Total Community Development	32	32	31	30	32	32	32	32	32	32
Total General Fund	2,767	2,705	2,665	2,655	2,557	2,542	2,493	2,389	2,338	2,249
OTHER OPERATING FUNDS										
Public Utilities Fund	374	374	374	374	374	374	374	373	373	373
Vehicle & Equipment Services Fund	45	45	45	45	45	45	45	45	45	45
Solid Waste Revolving Fund	69	66	65	64	61	56	55	54	54	54
Wastewater Fund	78	77	80	80	80	77	73	73	72	72
Stormwater Management Fund	83	61	59	57	57	55	55	46	47	46
Pension Fund	7	7	7	6	5	5	5	5	5	5
Economic and Industrial Authority	4	4	4	4	4	4	4	3	3	3
Parking Authority Fund	1	1	1	1	1	1	1	1	1	1
Law Library	1	1	1	1	1	1	1	1	1	1
Schools	4,446	4,389	4,281	4,260	4,301	4,241	4,194	4,051	3,926	3,793
Total Other Operating Funds	5,108	5,025	4,917	4,892	4,929	4,859	4,807	4,652	4,527	4,393
TOTAL CITY EMPLOYEES	7,875	7,730	7,582	7,547	7,486	7,401	7,300	7,041	6,865	6,642

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

Function/Program	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General Government										
Retail Sales (Millions)	-	1,743	1,897	1,809	1,725	1,618	1,586	1,420	1,317	1,243
Police										
Calls for Service	222,939	222,939	221,047	251,777	219,445	230,289	201,072	185,356	172,170	165,811
Number of Offenses	25,336	24,263	27,076	27,645	27,500	27,157	27,945	24,200	31,277	15,060
Adult Arrests	19,288	19,082	18,846	17,409	18,465	18,146	16,868	17,535	17,737	17,650
Traffic Summonses	26,778	37,452	32,791	37,266	37,912	37,205	29,753	32,226	35,013	28,238
Traffic Accidents	3,620	3,341	3,452	3,600	3,648	3,524	3,611	3,834	3,856	3,906
Fire										
Fire Calls	12,022	11,702	12,024	13,552	12,802	11,648	12,248	11,126	9,844	-
EMS Calls	23,931	23,764	21,669	20,354	20,189	19,360	19,763	18,958	16,986	-
Structure Fires	381	285	314	306	293	347	371	379	369	-
Sheriff										
City Jail Capacity	248	248	248	248	248	248	248	248	248	248
Codes Compliance										
Building Permits Issued	2,680	2,226	2,876	2,956	3,055	3,464	3,552	-	-	-
Residential Construction	257	308	180	344	366	508	395	414	438	443
Commercial Construction	69	101	70	31	58	35	50	64	47	49
Waterworks										
Gallons Delivered Per Day (Millions)	44.4	43.2	44.4	45.1	45.1	44.3	44.0	44.6	45.8	45.4
Meters Connected	123,857	128,090	127,377	126,434	125,488	124,762	123,598	122,186	121,166	119,790
Public Works										
Potholes Repaired	13,542	17,630	13,293	-	-	-	-	-	-	-
Streets Resurfaced (Miles)	22.00	21.00	18.50	-	-	-	-	-	-	-
Recyclables collected (Tons)	-	91,411	129,201	142,188	138,143	130,798	108,798	102,908	97,026	97,247
Parks and Recreation										
Park Vistors (Millions) (All Parks)	3.88	-	-	3.56	3.10	3.09	3.10	3.00	3.17	3.14
Celebration of lights vistors	95,510	109,223	95,510	91,594	89,496	108,957	101,915	111,718	93,357	117,504
Tourism vistor inquires	141,300	148,766	136,167	127,970	110,526	98,452	-	-	-	-
Tourism web site visits	105,374	129,682	74,653	69,270	39,876	-	-	-	-	-
Vistor guides distributed	150,000	150,000	150,000	175,000	150,000	150,000	-	-	-	-
Library										
Circulation Transactions	668,092	625,276	593,077	635,812	613,330	695,226	696,306	755,128	770,557	789,092
Schools										
Average Daily Students	30,635	30,827	31,358	31,535	31,440	31,563	31,793	31,853	31,679	31,191

Sources: Various city departments.

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

Function/Program	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Police										
Patrol Units	222	222	222	217	212	212	212	209	216	207
Boat	1	1	-	-	-	-	-	-	-	-
Fire										
Stations	10	10	10	9	9	9	9	9	9	9
Fire Trucks	20	19	17	16	15	11	11	11	11	10
Amblances	16	16	18	18	18	16	16	16	13	13
Boat	1	1	1	-	-	-	-	-	-	-
Engineering										
Streetlights	19,760	18,660	19,507	19,186	19,075	18,845	18,826	18,841	18,702	18,511
Traffic Lights	256	255	251	249	237	230	227	-	-	-
Parks and Recreation										
Parks	19	19	19	19	19	19	19	19	19	17
Acreage	8,978	8,978	8,978	8,978	8,978	8,978	8,978	8,978	8,978	8,849
Athletic Fields	77	77	77	76	76	76	75	75	75	75
Mini-parks	6	6	6	6	6	6	5	5	5	5
Beach/Waterfront Areas	6	6	6	6	6	6	6	6	6	6
Boat Ramps	3	3	3	3	3	3	3	3	3	3
Golf Courses	2	2	2	2	2	2	2	2	2	2
Swimming Pools	3	3	3	3	3	3	3	3	3	2
Tennis Courts (free)	60	60	60	60	60	60	60	60	60	60
Tennis Courts (pay)	20	20	20	20	20	20	20	20	20	20
Squares	3	3	3	3	3	3	3	3	3	3
Library										
Books	456,791	444,328	437,324	443,977	431,271	-	-	-	-	-
Paperbacks	23,443	19,047	17,174	16,053	15,619	-	-	-	-	-
Videos	7,499	6,953	5,473	5,262	4,770	-	-	-	-	-
Cassettes	10,195	9,591	9,459	9,234	7,589	-	-	-	-	-
Compact Disks	9,488	8,611	7,648	6,332	5,837	-	-	-	-	-
DVD'S	3,831	2,463	1,545	1,004	822	-	-	-	-	-
Microfilm	9,176	9,124	9,080	9,066	9,066	-	-	-	-	-
Microfiche	1,060	1,060	1,060	1,060	1,060	-	-	-	-	-
Waterworks										
Miles of Pipe	1,772	1,763	1,754	1,740	1,720	1,715	1,702	1,691	1,685	1,665
Fire Hydrants	9,843	9,704	9,595	9,287	9,104	8,978	8,831	8,650	8,452	8,314
Public Works										
Refuge Carts	76,491	76,029	71,164	1,556	1,565	-	-	-	-	-
Streets (miles)	503	502	502	501	499	494	490	488	486	486
Lanes (miles)	1,180	1,177	1,177	1,175	1,168	1,157	1,149	1,146	1,139	1,139
Sanitary sewers (miles)	602	602	602	602	602	602	602	-	-	-
Storm sewers (miles)	605	605	555	537	537	346	346	-	-	-
Pump Stations	-	-	-	-	-	-	-	-	-	-
Schools										
Early Childhood centers	4	4	3	3	3	3	3	-	-	-
Elementary schools	27	27	27	27	27	27	27	28	28	27
Middle schools	7	7	8	8	8	7	7	8	8	7
High schools	5	5	5	5	5	5	5	5	5	5
Elem-Middle combo schools	1	1	1	1	1	1	1	-	-	-

Sources: Various city departments.



**Independent Auditors' Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance with
*Government Auditing Standards***

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

We have audited the financial statements of the City of Newport News, Virginia (the "City") as of and for the year ended June 30, 2006, and have issued our report thereon dated December 21, 2006. 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. We did not audit the financial statements of Newport News Public Schools, nor did we audit the financial statements of the Peninsula Airport Commission, which represents 29% and 20% of the respective assets, and 93% and 2% of the respective operating revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Newport News Public Schools and the Peninsula Airport Commission, are based on the reports of the other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain other matters which we have reported to management in a separate letter dated December 21, 2006.

This report is intended solely for the information and use of the City Council, management, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekant & Holland, L.L.P.

Richmond, Virginia
December 21, 2006



**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control
over Compliance in Accordance With OMB Circular A-133**

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

Compliance

We have audited the compliance of the City of Newport News, Virginia (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance required referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provided a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2006-1.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control over compliance would not necessarily disclose all matters of internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grant agreements that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekaert & Holland, L.L.P.

Richmond Virginia
December 21, 2006

CITY OF NEWPORT NEWS, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

A. Summary of Auditors' Results

1. The type of report issued on the basic financial statements: **Unqualified opinions**
2. Reportable conditions in internal control disclosed by the audit of the financial statements: **No**
3. Noncompliance, which is material to the financial statements: **No**
4. Reportable conditions in internal control over major programs: **No**

Material weaknesses: **No**

5. The type of report issued on compliance for major programs: **Unqualified opinion**
6. Any audit findings which are required to be reported under Section 510(1) of OMB Circular A-133: **Yes**
7. The programs tested as major programs were:

<u>Name of Program</u>	<u>CFDA #</u>
Title I	84.010
School Assistance in Federally Affected Areas	84.041
Title II – Improving Teacher Quality	84.367
Capitalization Grants for Clean Water State Revolving Loan Funds	66.458
Foster Care – Title IV-E	93.658

8. Dollar threshold to distinguish between Type A and Type B Programs: **\$1,865,010**
9. The City of Newport News was determined to be a low risk auditee.

B. Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards: None

C. Findings and Questioned Costs Relating to Federal Awards:

Foster Care – Title IV-E; CFDA 93.658

2006-1: Allowable Costs/Eligibility

Criteria:

Costs reimbursed with Foster Care – Title IV-E funds should be allowable based on compliance with eligibility determinations. Chapter 200, Sections 202.3.A and 202.4.C of the title IV-E Eligibility Manual (February 2006 revision), clarify the definitions of “removal home” and “specified relative”, emphasizing that the specified relative must have legal custody or the child will not be Title IV-E eligible. Section 202.1 also states that if the local agency obtains custody but leaves the child in the home in which he or she is being removed, the child will not be Title IV-E eligible. Broadcast 3627 titled “New Policy for Screening Foster Care Children for Title IV-E Foster Care” directed local

CITY OF NEWPORT NEWS, VIRGINIA

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

departments to apply the February 2006 Administration for Children and Families (ACF) policy interpretation immediately and to re-screen and close active cases found to be ineligible under the new guidelines.

Condition:

Exceptions were noted in seven of the twenty-five case files examined due to the following conditions:

- Two children were determined to be ineligible after implementation of the 2006 ACF policy clarification and reinterpretation based on the definition of “removal home”. Both of these individuals had been found to be eligible in prior reviews conducted by the State. These cases have been closed since they were found to be ineligible under the new State requirements.
- One child’s discontinued SSA payments were reinstated but the information was not communicated in a timely manner from the service worker to eligibility and financial staff, resulting in ineligible costs reimbursed with Title IV-E funds.
- A clothing payment was reimbursed with Title IV-E funds to a child who was determined to be eligible but non-reimbursable due to receiving social security income. This erroneous reimbursement was due to a clerical error.
- Title IV-E funds were used to pay for daycare and monthly maintenance payments for two children while they were in provisional placements. Title IV-E funds is unallowable during the time period a child is in a provisional placement.
- Title IV-E funds were used to reimburse costs for a child in July 2005 whose court order had not been signed by the judge on or before the due date of June 30, 2005. The court order was signed on August 1, 2005.

Cause:

Application of the 2006 clarification and reinterpretation of ACF policy by the State, and the additional reviews to re-screen and apply those changes, caused the closure of several Title IV-E cases that were previously deemed eligible by the State. Other payment errors appear to relate to the usual programmatic difficulties that result from frequent changes in individual’s eligibility and placement.

Effect:

The above errors caused known questioned costs of \$1,901. Potential questioned costs arising from the 2006 ACF policy clarification and reinterpretation amount to \$3,854.

Recommendation:

Newport News Department of Social Services should continue to emphasize the importance of timely communication of all changes as they occur to each child’s case to allow eligibility and financial workers to make the necessary changes to comply with ACF policy and guidelines. Due to the complexity of Title IV-E program and the frequent changes in each child’s case, supervisory review remains an important control to assure compliance in a changing environment.



**Independent Auditors' Report on Compliance with
Commonwealth Of Virginia's Laws, Regulations,
Contracts And Grants**

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

We have audited the basic financial statements of the City of Newport News, Virginia (the "City"), as of and for the year ended June 30, 2006, and have issued our report thereon dated December 21, 2006.

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 *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our audit of the basic financial statements was not to provide an opinion on overall compliance with such provisions, and, accordingly, we do not express such an opinion.

The following is a summary of the Commonwealth of Virginia's laws, regulations, contracts, and grants for which we performed tests of compliance:

<u>Code of Virginia</u>	<u>State Agency Requirements</u>
Budget and Appropriation Laws	Comprehensive Services Act
Cash and Investments	Social Services
Conflicts of Interest	
Debt Provisions	
Procurement	
Unclaimed Property	
Enhanced 911 Service Taxes	
Retirement Systems	

The results of our tests disclosed no instances of noncompliance with the provisions referred to in the preceding paragraph.

This report is intended solely for the information of City Council, management, the Auditor of Public Accounts and applicable state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekaert & Holland, L.L.P.

Richmond, Virginia
December 21, 2006