

# CITY OF NEWPORT NEWS, VIRGINIA

## Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2007

Prepared by the  
Department of Finance

2400 Washington Avenue  
Newport News VA 23607

CITY OF NEWPORT NEWS, VIRGINIA

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January 22, 2008

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, 2007. 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, 2007. 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 31<sup>st</sup> 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 18,200 white collar and production workers. During FY 2007, the company completed construction of an \$80 million pier, the first new pier built at the Shipyard since the 1940's. This is part of a \$170 million upgrade needed to build the new Ford-class nuclear aircraft carrier. Work on the \$8.1 billion Gerald R. Ford began this year. The Shipyard is also completing work on the \$2.3 billion Virginia-class nuclear submarine, the North Carolina, and is mid-way through the \$3.1 billion overhaul and refueling of the nuclear aircraft carrier, Carl Vinson.

During FY 2007 national unemployment decreased from 4.8% to 4.6%, while the City's unemployment rate decreased from 4.3% to 3.4%.

The national defense sector readjustment that began after the end of the Cold War is moving into its final implementation phase 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.

The City is now more than 92% developed, with most of its 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, Patrick Henry Place and Huntington Pointe

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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 creative labor force to support continued economic development.

### ***Long-term financial planning***

The City Code requires the City Manager to submit to City Council, no later than November 1 of each year, a multi-year Capital Improvements Plan (CIP). The FY 2008 to FY 2012 CIP was approved by City Council on January 23, 2007. The CIP reflects the vision and priorities of the City Council in terms of the need for the construction and maintenance of those buildings, infrastructure improvements and services deemed to be capital expenditures of the City. Although intended to be a commitment to a multi-year capital needs program, the CIP is fundamentally a planning document and is therefore subject to annual modification and amendment as changing priorities, availability of revenues and other factors create the environment for such revisions. Most projects in the CIP are funded by General Obligation Bonds issued by the City for 20 years with level annual principal reductions. The annual principal and interest payments (debt service) are budgeted in the City's annual operating budget. The General, School, Wastewater, Stormwater, Solid Waste, and Marina Funds all pay their proportionate share of principal and interest payments. The FY 2008 Budget calls for the General Fund to pay 88%, or \$54,460,618, of the total debt service budget of \$61,949,527.

The City has adopted policies that guide capital improvement planning and the issuance of long-term debt. These policies are intended to (1) help the City maintain its "AA" bond rating, (2) to manage its capital investments in a manner that does not create an undue financial burden on its taxpayers, and (3) to keep annual changes in debt service obligations at levels that do not interfere with the City's ability to provide municipal and educational services to its citizens. The following are the City's Capital Financing and Debt Management Policies:

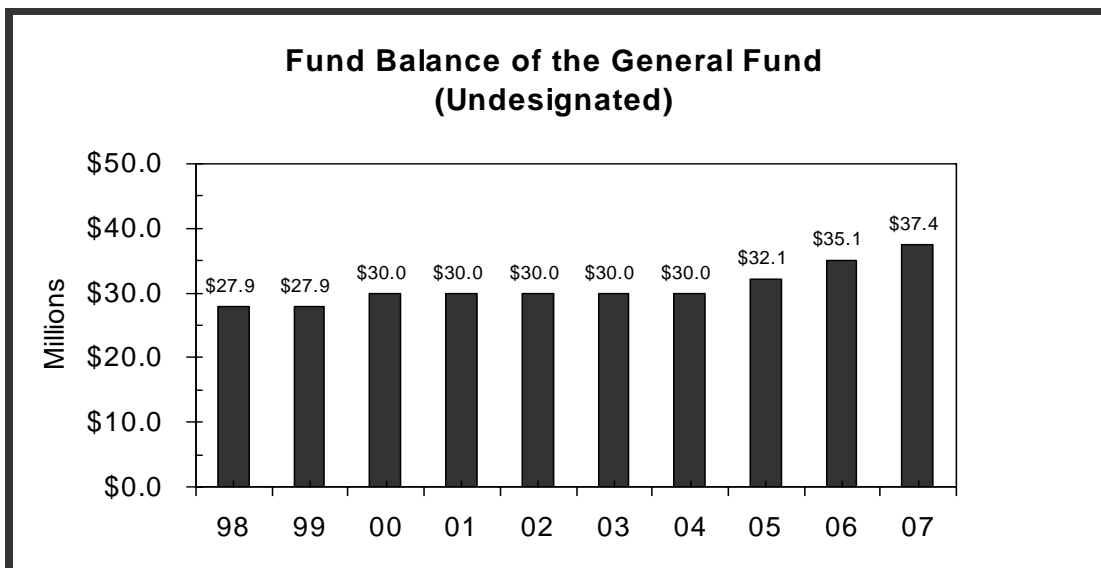
- It is the goal of the City to reduce its debt burden to 3.0% (it was 3.88% in FY 2007) or less by FY 2012. Debt burden is defined as the ratio of outstanding general obligation debt and capital lease obligations divided by the value of the total taxable real and personal property in any given tax year.
- It is the goal of the City to finance fifteen percent (15%) of its CIP spending with cash capital in FY 2008, and that this proportion be increased to no less than twenty percent (20%) by FY 2012.
- Because debt service obligations are primarily funded from school and municipal revenues received through the Operating Budget, the City's intent is that the ratio of debt service obligations to General Fund revenue shall not exceed nine and one-half percent (9.5%) in any fiscal year.
- The City's intent is to structure principal payments when issuing new General Obligation debt, or refinancing existing debt, so that no less than thirty percent (30%) of the outstanding debt is scheduled to be repaid within five years, and that no less than sixty percent (60%) is scheduled to be repaid within ten years.
- So that the City may manage its debt capacity and remain within the parameters of its Capital Financing and Debt Management Policies, the City Manager shall provide the City Council with a thorough debt impact analysis on any proposed undertaking that requires financing through the issuance of short or long-term debt obligations, capital leases or debt guarantees.

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

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. In June 2007, Public Utilities issued Water Revenue Bonds in the amount of \$40,000,000. Neither the faith nor credit of the City is pledged to the payment on these revenue bonds. Moody's and Standard and Poor's rating services have issued credit ratings of Aa3 and AA, respectively. This is the first issuance of water revenue bonds in Waterworks' history.

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, \$68.2 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 2007 by \$7.6 million. The undesignated General Fund fund balance, which represents available current financial resources, totaled \$37.4 million at June 30, 2007 and remained at the same percentage of revenues (9.42%) of the prior two years. 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%.



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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 16.29% annually for the past five years, including a substantial 16.02% increase in 2007 – reflecting the recent appreciation increases in the market value of real estate. The significant increase resulted in City Council lowering the tax rate from \$1.20 to \$1.10/\$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 \$5.6 million at June 30, 2007. 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 2007, 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. Major developments took place at City Center, including the opening of the Marriott Hotel and Conference Center; additional office, retail and restaurant leasing in the Mariners Row block; and commencement of construction on The Pointe Condominiums and Two City Center, a new, five-story office/retail building. City Center is now widely viewed as one of the most successful new urbanist developments of its type. In the southern part of the City, a significant planning effort, the Southeast Community Waterfront Urban Design Study, which was recommended to City Council this year, will set the tone for a transformation of the study area that will take place over the coming years.

During FY 2007 the City completed its final planning and analysis for an Enterprise Resource Planning (ERP) business system. A contract was awarded July 10, 2007 for a MUNIS-ERP business software package. The new software will replace the city's legacy financial system. The initial work is confined to the Information Technology (IT) Department and the core departments of Budget, Human Resources, Finance and Purchasing. The goal is to have the Financial, Accounts Payable, Budget and Purchasing Modules implemented July 1, 2008. A target date for Payroll, Benefits, Pension and Human Resources has been set for January 1, 2009. The projected cost of the project is \$3.2 million.

### **Other Initiatives and Accomplishments**

#### **Commissioner of Revenue and Treasurer's Office**

During this fiscal year, steps towards offering the Department of Motor Vehicles (DMV) Select services in the City Hall offices of the City Treasurer and Commissioner of Revenue were nearing the final stages. This office is anticipated to generate approximately \$11,000 to \$12,000 per month in revenue. DMV Select services include: titles, registrations, personalized license plate orders, trip and overload permits, handicapped parking placards, voter registration applications and transcripts. This new service went live in October 2007.

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**Children, Youth & Families** – In support of the City’s Strategic Plan for Youth, the department focused on the following major initiative:

- ***Keeping Our Kids Safe: The Newport News Violence Prevention Network.*** The Network is composed of 30 City department and community organization representatives working to implement comprehensive, community-based strategies to create a culture of non-violence in our community. This year the Network established the Targeted Outreach Program, Neighborhood Leadership Institute, Mentoring Coalition, After School Alliance, Runaway Project, Parent Educators Partnership, and the Communities That Care and Communities Empowering Youth initiatives.

**Engineering** - Major initiatives for FY 2007 include the following:

- The Department applied for and received \$1,000,000 in additional State Revenue Sharing funds for Phase I of the Richneck Road Improvements.
- The Department introduced a web-based review and approval system for site plan reviews. This system will be the basis for on-line applications and approvals in the next few years.
- The Department applied for Regional Surface Transportation Program (RSTP) grants to supplement the City’s Capital Improvement Program. Funding of \$3,000,000 was approved for the relocation of Route 60 from Ft. Eustis to the James City County line and \$2,000,000 for Middle Ground Boulevard extension.
- The Department improved its survey benchmark system by adding 76 new monuments and updating 50 existing monuments. These monuments are used in the surveying process to obtain various site coordinates, which improves the accuracy of data in the Geographic Information System (GIS).

**Fire** – The following major initiatives were in process or completed in FY2007:

- The replacement of Fire Station #3, slated for construction in the Brentwood area on Jefferson Ave. is now in the design phase. Construction cost for the facility is budgeted at \$5.3 million.
- The Department was able to replace several capital equipment assets as follows:
  - Two engines and one aerial tower valued at \$1.9 million
  - A new Freightliner Medic Unit valued at \$170,000
  - A new Fire Boat valued at \$400,000 was ordered in FY07, funded through a cooperative agreement between the City and the Va. Port Authority and the Department of Homeland Security. Delivery is expected in August of 2007.
- The department received a LUF-60 track driven foam generator valued at \$200,000. The generator will be used in fighting major fires in the area roadway tunnels. This equipment was purchased by the Virginia Department of Transportation and provided as an equipment grant to area localities that support the major tunnels.

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- The Department submitted a proposal to the Department of Homeland Security requesting an Assistance to Firefighters Grant award for the replacement of its portable radios. The project budget for the proposal was for \$644,000. In July 2007, the department received notice that we had received the grant and the federal share would be over \$531,000. The acquisition of the hardware will occur in FY08. The current portable radios will be transitioned over to other City agencies, providing a significant upgrade to their capabilities.

**Health Department** - During FY 2007, the department was successful in winning the following grant awards:

- Grant support from the Virginia Department of Health: \$109,859 and continuation funding of \$134,859 for FY 2008.
- \$100,000 from the Virginia Department of Health to support community efforts to reduce the infant mortality in the City.

**Human Services** – Major initiatives for FY 2007 include the following:

- Healthy Families was awarded \$70,000 from the Virginia Department of Health to provide parenting classes. One project focused on couples planning to parent a child together, and the other on male responsibility.
- Sixty two children were adopted from the foster care system, the highest number of adoptions from any one locality in the Commonwealth of Virginia.
- The Virginia Initiative for Employment not Welfare enrolled Temporary Assistance to Needy Families (TANF) parents into meaningful work activities, culminating in gainful employment for approximately 1,100 families.

**Juvenile Services** – The following initiatives were in process or completed during FY 2007:

- The Department of Juvenile Services increased the accessibility and availability of mental health and substance abuse services to youth within the community by realigning the mental health/substance abuse services in the department and receiving \$0.5 million in grant funding for mental illness.
- The Secure Detention population has drastically decreased from an average daily population of 95 to 41. This has allowed the department to save in personnel costs.

**Libraries and Information Services** – The following initiatives were in process or completed during FY 2007:

- During FY 2007, the department was successful in receiving the following grant awards and donations:
  - \$18,000 grant from the National Endowment for the Arts and community donations for the Big Read, a new national program that encourages communities to come together to read and discuss one book.

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- \$1,000 in free books for the Big Read events donated by Barnes and Noble Booksellers after establishing a partnership with them.
- \$2,000 grant from Target for the third year for the Early Childhood Literacy Program, which strengthens family literacy programs and helps prepare children for entry into the school system.
- The department participated in the commemoration of Jamestown 2007. West Avenue Library hosted 326 visitors for the unveiling of the newly restored Christopher Newport mural during the “Come Home to Newport News” celebration.
- Ongoing: Contracted with a vendor to conduct a facility/space-needs analysis to determine how to best use facilities and identify locations for future library sites.

**Parks and Recreation** – The following are initiatives and accomplishments during FY 2007:

- The Department of Parks, Recreation & Tourism spent much of the 2007 fiscal year planning, coordinating, and executing activities for the Jamestown 2007 Commemoration, America's 400th Anniversary.
- The City of Newport News hosted national youth athletic championships in conjunction with the AAU Junior Olympic Games in July of 2006. Approximately 1,500 athletes from across the nation competed in four sports including Girls Basketball, Swimming, Diving and the 12 & Under Baseball National Championship.
- The City of Newport News hosted the 2006 AAU 12 & Under Boys Basketball National Championship Tournament. 120 Teams from across the country competed at 11 Newport News schools and recreation centers.
- The Department launched the new **ActiveNet** online registration system for the Winter FY 2007 registration.
- The grand opening of the reconstructed Doris Miller Pool was June 9, 2007. The new pool features a zero depth water play area, a tube slide, two lap swimming lanes and a shaded jet-spa area.

**Police** – The following projects and initiatives were in process or completed during FY 2007:

- The Police Department moved into its new headquarters in November, 2006. The new building allows the employees to communicate more effectively and provides a new sense of security for the Jefferson Avenue neighborhood.
- Dispatch personnel implemented the Emergency Medical Dispatch protocol which allows dispatchers to provide basic pre-arrival first aid instruction while awaiting medic response.
- Intensified recruiting efforts continued to benefit the department. In December, 2006, 20 recruits graduated from the departments Police Academy; an additional 31 graduated in June, 2007.

**Public Utilities (Waterworks)** – The following are major initiatives and accomplishments for FY 2007:

- On December 14, 2006, the Virginia State Water Control Board voted to extend the King William Reservoir Virginia Water Protection Permit for three to five years. Efforts continue to be focused on river monitoring, archeological research, land acquisition, and wetland mitigation projects. The completion of these and other projects will allow this permit to be further extended for construction of the King William Reservoir to secure our future water supply.
- Waterworks completed implementation of its new Customer Information System (CIS) in June 2007 and went live July 2007. CIS provides new options to customers such as direct debit, budget billing and services via the Internet.
- Changing dam safety regulations prompted Waterworks to improve the spillway capacity of the Harwood's Mill Reservoir. An emergency spillway was constructed that will protect the dam from failure. In addition, Waterworks reconstructed the principal spillway to address structural issues. The project was completed in March 2007 at a cost of \$3.4 million.
- Waterworks is in the final stage of design and will soon begin construction of a residuals treatment system to manage manganese waste from the water treatment plant residuals treatment processes. These improvements will reduce the quantity of water currently discharged to sanitary sewer (saving water and cost) and should also improve raw water quality at the Harwood's Mill Water Treatment Plant. Construction of these and related improvements are anticipated during FY2008 and FY2009.

**Public Works** – The following are major initiatives and accomplishments for FY 2007:

- 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 nine of the Honeywell contract was \$740,169. The cumulative energy cost avoidance through the end of year nine is \$5,676,351, as compared to the cumulative energy guarantee per the contract of \$3,303,828.
- The Denbigh Compost and Drop off Facility increased mulch sales from \$226,769 to \$266,538, an increase of approximately 17.5% from FY 2006.
- The new **Public Works Annex**, which will be occupied by the **Wastewater and Stormwater Divisions**, as well as the **Public Works Call Center**, is approximately 90% complete. This is a Category III rated hurricane resistant building, which will house Public Works first responders in the event of a hurricane.

**Self-Insurance** – In January 2007 City Council approved the creation of an Environmental Management System (EMS) office to be housed within the Office of Self Insurance. The EMS program's objectives are compliance with environmental regulations, pollution prevention and continued improvement in both the management of the program and environmental challenges faced by local governments. While one goal of the EMS program is to gain recognition from the Virginia Department of Environmental Quality (DEQ), another is to operate with greater efficiency and control in dealing with environmental issues. It is particularly noteworthy that Deer Run Golf Course and Harwoods Mill Water Treatment Plant have already received the Exemplary Environmental Enterprises (E3) designation from the DEQ for their EMS programs.

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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, 2006. This was the 28<sup>th</sup> 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, 2006. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

### **Recognitions**

- The City of Newport News was selected for the second time as one of the 100 Best Communities for Young People by America's Promise – The Alliance for Youth.
- The Solid Waste Division received the *2006 Keep America Beautiful President's Circle Recognition Award for Standards of Excellence*.
- Recognized for the 24<sup>th</sup> consecutive year as a "Tree City USA" by National Arbor Day Foundation.
- The Human Services Department received national recognition for "Best Practices" in community support from the National Counseling Society.

### **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, 2007**

**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  
W. Gregg Jones ..... Director of Budget and Evaluation  
Cathy S. Matthews ..... Director of Internal Audit