CITY OF NEWPORT NEWS, VIRGINIA

Comprehensive
Annual Financial Report

Fiscal Year Ended June 30, 2010

Prepared by the

Department of Finance

2400 Washington Avenue
Newport News VA 23607

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City of Newport News

Virginia 23607

December 17, 2010

2400 Washington Avenue
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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, 2010. 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, 2010. 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 compliments 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 193,172. Newport News is the fourth largest city by acreage and the sixth 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. After 14 years as mayor, Joe Frank retired and effective July 1, 2010 McKinley Price was elected as the City's new mayor. 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 Utility Department (Waterworks) also provides water to the cities of Hampton, Poquoson and parts of York and James City Counties.

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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 included, as component units, the Newport News Public Schools (Public Schools or School Board), the Peninsula Airport Commission (PAC), and 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 and the Hampton-Newport News Community Services Board.

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 35th largest market in the United States. According to a U.S. Bureau of Economic Analysis report, Hampton Roads was one of only three of the largest 52 metropolitan areas in the United States to see gains in both net earnings and personal income in 2009. 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, corporate offices, retail, business and consumer services, distribution and one of the world's major shipbuilding centers, Northrop Grumman Shipbuilding.

The economic development activities of the City are carried out through the Economic and Industrial Development Authorities (E/IDA). The E/IDA's purpose is to attract and promote industry and economic development with the City. The E/IDA promotes the City as a preferred location for business start-up, relocation, expansion, and capital investment. *Expansion Solutions Magazine's* November 2009 issue highlighted Newport News as "Top 5 for High Tech," citing "Technology-oriented firms are attracted to Newport News by the unbeatable combination of a highly skilled workforce, the low cost of doing business, and a pleasant and exciting array of lifestyle amenities." Newport News was featured in *Area Development Magazine's* October 2009 article "First, Second and Third Tier Cities – does Community Size Matter in Business Success?" Cities were recognized for adapting to meet challenges, innovating with new business incentives, marketing strategies, and old-fashioned relationship building.

Northrop Grumman Shipbuilding, the City's largest employer, continues to remain strong, employing over 19,000 white collar and production workers. On July 22, 2009, AREVA, the French nuclear company, and Northrop Grumman Shipbuilding broke ground on a 330,000-square-foot heavy component manufacturing plant for the companies' AREVA Newport News, LLC joint venture. The new facility represents an investment of over $360 million. Northrop Grumman will also create a new subsidiary, Newport News Energy, to sell engineering services to the nuclear power industry. Together, the two companies will create at least 540 new jobs by 2013.

Northrop Grumman Shipbuilding, in conjunction with General Dynamics Electric Boat, is continuing its $14 billion contract from the U.S. Navy to build eight new nuclear powered submarines between 2009 and 2013. The contract is expected to add up to 2,200 new jobs and require an additional $200 million in capital investment for new submarine production facilities.

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Continental Automotive Systems is investing $30 million at its automotive parts plant and will create up to 318 new jobs through a consolidation of its South Carolina diesel fuel injection system production at the Newport News location.

At the conclusion of 2008, Pepsi Bottling Group, Inc. announced a 17,900-square-foot expansion of its bottling facility, located in northern Newport News near Oakland Industrial Park. Within one year of the announcement of its expansion project, the company celebrated the grand opening of its new facility expansion on October 17, 2009.

The Atlantic 10 Athletic Conference, one of 32 Division I college athletic conferences, announced the relocation of its headquarters from Philadelphia, Pennsylvania to Newport News in August 2009. The Atlantic 10 Conference is currently comprised of 14 member institutions and sponsors 21 championship sports. The EDA entered into an incentive performance agreement with the Atlantic 10 Conference upon the Conference's decision to relocate to Newport News.

In 2009, Canon, Inc. completed the construction of a new manufacturing facility on the Newport News campus of Canon Virginia. The expansion has already added over 300 jobs, and will add an estimated 1,000 jobs at its completion. The investment will total over $600 million. The new facility performs highly-robotic production of toner cartridges for Canon. The project also includes an expansion of Canon Virginia's aftermarket service of Canon digital consumer products, an advanced manufacturing research and development component, and the establishment of Canon's Market Engineering Technical Center, which will provide training services for Canon's operations in the Americas. *Southern Business and Development Magazine* awarded Canon the "Excellence in Business Recruitment" award in its summer 2009 issue. The award recognizes high-profile manufacturing projects in the south, which are moving forward despite the economic downturn.

In 2009, a *Daily Press* article estimated $254 million in projects slated at Fort Eustis. Some of the projects have already been started. These projects are estimated to bring in approximately 1,700 more people to the post, spread among military, civilian employees and contractors.

Frontier Airlines announced the return of non-stop westbound jet service as it premiered its first flight in a series of four weekly non-stop flights from Newport News to Denver, Colorado in May 2010. Flights arrive and depart from the Newport News/Williamsburg International Airport's new 38,000-square-foot concourse.

Orion Air Group LLC announced it would create 51 new jobs with salaries averaging $81,500 and build a $4 million hangar at the Newport News/Williamsburg International Airport. Orion Air Group LLC, currently based in York County, Virginia, will build a new hangar and consolidate its corporate headquarters at Air Commerce Park at Newport News/Williamsburg International Airport.

Doyon Government Group opened a 4,600-square-foot office in City Center at Oyster Point in June 2010. The government contractor plans to hire 159 workers by the end of 2012, and jobs will have an average salary of $65,000. The company, which is involved in construction, security and financial services, had $110 million in revenue in 2009 and expects to generate $145 million in 2010.

Jefferson Lab received a total of $86.5 million from the U.S. Department of Energy's Office of Science, under the American Recovery and Reinvestment Act (ARRA). The funds are being used for projects that support the lab's scientific mission, while also generating economic benefits for the local community and residents. As of June 2010, a total of 239 jobs had been created or saved as a result of ARRA activity at Jefferson Lab.

Jefferson Lab has begun site work on a new $73.2 million Technology and Engineering Development Facility project, or TEDF. Plans call for a 70,000-square-foot Technology and Engineering Development building, a 30,000-square-foot addition to the existing Test Lab building, and the modernization of the 96,000-square-foot Test Lab. A proposed $29.2 million upgrade to the utilities infrastructure at Jefferson Lab has received CD-1 approval from the U.S. Department of Energy. Construction on the upgrade is expected to begin in late 2011.

The City of Newport News is again below the national averages for unemployment rates. During FY 2010, the national unemployment rate was at 9.5%, while the City's rate grew from 7.8% to 8.0%.

The City is now more than 92% developed, with most of its built environment oriented around automobile-dependent forms of development. New urbanism and sustainable development, which seek to recreate more pedestrian-friendly neighborhoods, have been successfully implemented in Newport News with such projects as City Center at Oyster Point, Port Warwick, Patrick Henry Place and Huntington Pointe (now in its planning stage). 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. Contributing to the sustainable development momentum in the City will be a proposed transformational, mixed-use development of the Southeast Commerce Center by Tidewater Partners Property and Development, LLC, a group headed by a former NFL quarterback and Newport News native, Aaron Brooks. This is a first step toward implementing a plan to transform the entire Southeast Community by introducing a wider variety of new housing and commercial development, particularly along the Hampton Roads waterfront.

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 2011 to FY 2015 CIP was approved by City Council on January 12, 2010. 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 at least 20 years which is generally the lifespan of a project, 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 Public Utility Fund services its own debt and construction projects.) The FY 2011 Budget calls for the General Fund to pay 83%, or $48,148,834, of the total debt service budget of $59,932,635.

The City has adopted polices 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% 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. At the end of FY 2010, the debt burden was 2.1%.

It is the goal of the City to finance no less than twenty percent (20%) of its CIP spending with cash capital in by FY 2012. For FY 2011, the cash capital ratio is 14.8%.

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. At the end of FY 2010, the ratio was 9.4%.

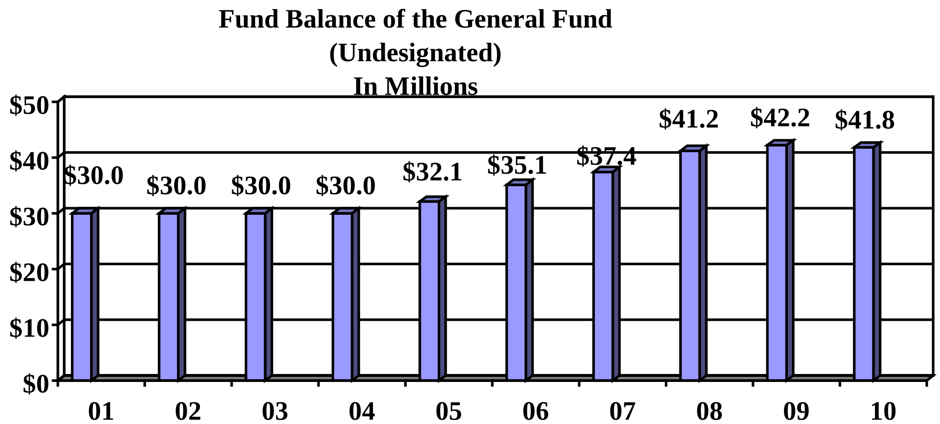
The City's intent is to structure principal payments when issuing new General Obligation debt, or refinancing existing debt, so that no less than thirty percent (30%) of the outstanding debt is scheduled to be repaid within five years, and that no less than sixty percent (60%) is scheduled to be repaid within ten years.

So that the City may manage its debt capacity and remain within the parameters of its Capital Financing and Debt Management Polices, 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. At the end of FY 2010, the City's outstanding moral obligation debt totaled $13.1 million (0.07% of taxable property).

The General Fund fund balance is an important element in the financial position of the City. The Fund balance is divided into reserved and unreserved portions, and the unreserved fund balance is subdivided into designated and undesignated portions. Reserved fund balance is used to reserve assets that are not available for current spending, and designated fund balance represents planned uses of current resources. Fund balance is a positive factor when the rating agencies consider bond ratings for the City. At the end of the year, $61.9 million has been set aside in various reserves and other designations.

The General Fund revenues exceeded expenditures, including other financial sources, during FY 2010 by $4.3 million. The undesignated General Fund fund balance, which represents available current financial resources, totaled $41.8 million at June 30, 2010 (10% of revenues). 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 FY 1992, and the undesignated General Fund fund balance as a percentage of revenues continues to exceed our policy threshold of 5%.



While the real estate property tax base growth has averaged 9.3% for the past five years, the rate reflected a 3.2% increase for 2010, indicative of a downturn in the market value of real estate.

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 $4.8 million at June 30, 2010. 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 2010, positive steps have been taken toward realizing economic and community development goals that serve to enhance Newport News' tax and job base and that provide the City with a sustainable fiscal and quality-of-life environment. City Center continues to be viewed by those within and beyond the region as one of the most successful new urbanist developments of its type. In the southern part of the City, the EDA is working on pre-development phases with Tidewater Partners Property and Development, LLC to pursue a mixed-use development of the Southeast Commerce Center. This transformative development will be at the gateway to the Southeast Community, for which extensive redevelopment and revitalization is planned over the coming years.

The federal authorization of the American Recovery and Reinvestment Act (ARRA) included an appropriation to provide funding to construct non-federal fire stations in the Country. The City's Fire and Engineering Departments successfully submitted a funding proposal that resulted in an award of $2.6 million. The awarded funds will offset the construction cost of the Brentwood Fire Station (#3). The award notice was received in September of 2009. The construction contract was awarded and signed in June of 2010. Construction of the new station is expected to be completed in the fall of 2011. Secondary to this award was the added benefit of shifting allocated CIP funding to other critical City projects.

The Engineering Department was successful in obtaining three transportation related ARRA grants. These grants, which total $4,487,820, will support the arterial street resurfacing project, citywide signal system upgrade project and the signal system retiming project. As a result of a $1,757,300 ARRA grant for various energy related initiatives, The Engineering Department will upgrade approximately 350 streetlights to light emitting diodes (LED's). This upgrade will reduce the power consumption by almost half while enhancing the aesthetics of the City.

In order to reduce long-term liabilities of the Pension and Other Post Employment Benefit (OPEB) Plans, City Council approved benefit changes which went into effect March 1, 2010. Over time, significant savings will be recognized. Major changes include reducing the multiplier from 2.0% to 1.85% and closing the plans to new hires. Eligible employees hired on and after March 1, 2010 will be enrolled in the Virginia Retirement System (VRS). Additional information is provided in the notes of the financial statements.

Other Initiatives and Accomplishments

Development – The following initiatives were completed during FY 2010:

- The EDA entered into an agreement with the Virginia Department of Transportation (VDOT), for a $5 million Transportation Partnership Opportunity Fund Grant (TPOF) to fund transportation improvements in support of the Canon Virginia expansion. The TPOF Grant will fund turn lane, signal, and road widening improvements at three key Oyster Point intersections expected to be affected by increases in traffic due to Canon's phased hiring of over 1,000 new employees.

- EDA staff facilitated City Council approval of the dissolution of the Peninsula Ports Authority of Virginia (PPAV). After extensive due diligence, the EDA approved the transfer and assumption of outstanding bond administration and all fiduciary responsibilities to the Authority. Importantly, this included the provision of a $600,000 grant from PPAV to the Regional Air Service Enhancement (RAISE) Fund.

- A Development Agreement governing the exchange of the existing Hornsby properties located at the corner of 32nd Street and Jefferson Avenue with the new facility site has been executed. This will allow the current Hornsby Tire Company facility site to be incorporated into the Southeast Commerce Center, adding 1.44 acres to the Center's overall size and providing approximately 225 linear feet of street frontage along Jefferson Avenue. The Authority worked in collaboration with Newport News Redevelopment & Housing Authority staff to facilitate approval of a loan and a City commitment of Capital Improvement Project (CIP) funds for the benefit of the project.

Engineering – The following initiatives were completed during FY 2010:

- The Department initiated a joint pilot project with Dominion Virginia Power to test the performance of LED streetlights by converting 10 of the City's streetlights to LED. In addition to enhanced lighting quality, this replacement alone has significantly reduced energy consumption resulting in a reduction in greenhouse gas emission of approximately two metric tons per year. This outstanding result has encouraged the department to proceed with other streetlight upgrade projects which will further reduce green house gas emissions and provide for financial savings and environmental conservation for the years ahead.

- In conjunction with the Department of Budget & Evaluation, Engineering created a web-based Capital Improvement Planning and Budgeting system. This system, which is linked to the City's Geographical Information System (GIS), has increased project coordination between departments, automated workflow processes and provided an effective tool for tracking and prioritizing projects citywide.

- The Departments of Engineering and Public Works manage the regional Sanitary Sewer Special Order by Consent (SOC). The SOC involves identifying issues in the sewer system and either immediately corrects or creates a long term program for correction. Through this process, 28 emergency sanitary sewer repairs were authorized and completed during FY 2010. The installation of flow meters and pressure gauges at the approximately 150 sanitary sewer pump stations was substantially completed during FY 2010. The information obtained from this equipment identifies operational and maintenance characteristics more effectively. Savings of up to $50 million of the projected $200 million of potential repair costs identified under the SOC has been realized with the new data.

Fire – The following initiatives were completed during FY 2010:

- The Department was able to replace several capital equipment assets as follows:
  - Two 100’ ladder trucks. Each truck cost approximately $720,000.
  - Two medical transport units. Each unit cost approximately $210,000.

- The Fire Department conducted a detailed call volume / response time analysis in 2008 using data covering three years of responses. The analysis indicated that a new fire station was needed in the Denbigh area to cover the Denbigh Blvd. corridor and extending up to the new Huntington Pointe complex. In these difficult fiscal times, there was insufficient funding to allow for acquisition of property, design and construction of a “typical” municipal facility. Through a partnership with the Peninsula Airport Commission and the City, a site for a “temporary” facility was selected and a facility designed and constructed for under $700,000. Fire Station #11 opened in November of 2009. This mechanism for addressing response capability in the community allows the department the time needed to select the most appropriate site for a permanent station.

- The Fire Department Division of Emergency Management, under the authorization of the City Manager, has been working to change the model used to respond to emergencies that require a City wide response to natural or manmade disasters. The implementation of the National Incident Management System (NIMS) for incident command and operations required a significant amount of time and investment from scores of employees. In FY 2010, approximately 25 employees attended enhanced training in unified command in Texas and many more were trained to the ICS 300 and 400 levels. To complete the transformation, the situation room at the EOC was remodeled to ensure a more efficient and coordinated response.

- The Department was awarded approximately $625,000 by the Department of Homeland Security to enhance the Explosive Ordnance Disposal team’s capability to respond to and mitigate incidents involving explosive materials. During the year, assets were acquired with the funds (approximately $535,000) to enhance the robotic capabilities as well as explosive containment and Improvised Explosive Device (IED) defeat capability.

- The Insurance Services Office (ISO) rating for the City improved to a Class 2. The ISO rating (1-10, with class 1 being the best) is used to assign insurance premiums and impacts insurance rates charged to commercial and residential properties. The most significant areas evaluated during the ISO audit were fire suppression fleet capability, fire suppression personnel, training, dispatch capability and water supply system and capacity. As a benchmark, there are no Class 1 rated cities in Virginia and only a handful in the Country.

Libraries and Information Services – The following initiatives were completed during FY 2010:

- The Department received a contribution of $5,000 from The Wachovia Wells Fargo Foundation and $2,000 from the BayPort Credit Union in support of the Wickham Avenue Alliance's Youth Leadership Program.

- The Department started offering new opportunities for youth at Pearl Bailey Library through the For Kids Only Youth Advisory Committee. The Friends of the Newport News Public Library donated $250 and the Warwick Rotary Club donated $250. A matching grant from the District 7600 Rotary Club brought the total to $1,000. The funding will be used for books, games and other supplies for the youth at the Library.

- The Department initiated a new service that allows patrons to get reference answers through instant messaging. The e-Librarian service enables users to get answers live from reference staff through a link on the Library System's website at http://www.nngov.com/library/meebome.

Public Utilities (Waterworks) – The following are major initiatives and accomplishments for FY 2010:

- In the spring of 2010, Waterworks' consultant completed the final design documents for the Walkers Dam Phase II rehabilitation project. The intent of Phase II is to restore the dam and appurtenant structures to their original functions for another service life of at least 60 years.

- Professional engineering and other professional services related to permitting for the Phase I design of the Lee Hall Dam Improvements Project began in FY 2010 in order to bring the dam in full compliance with the Virginia Department of Conservation and Recreation – Dam Safety Division (DCR) regulations. Nearly 70% of the water delivered to Waterworks' customers passes through the Lee Hall Reservoir system.

- An 8-inch diameter interconnection between Lightfoot and James City Service Authority's water system was installed to provide emergency water service to the Lightfoot system, including Sentara Regional Medical Center.

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Public Works – The following are major initiatives and accomplishments for FY 2010:

- The Department of Public Works has worked throughout the year to strengthen its emergency response procedures. Under a National Incident Management System (NIMS) scenario, the Department will operate the Call Center 24 hours a day in order to receive reports of road blockages, flood areas, damage and other problems from citizens. A Department Operations Center (DOC) has been created to act as a link between Public Works and the Emergency Operations Center (EOC).

- Asset Management completed configuration and implementation of the new Citizen Portal providing a 24-hour browser based system for citizens to utilize whenever they need information or service from a department that currently utilizes Cityworks. The production version of the product has been fully tested and has, with very little marketing to this point, achieved a modest amount of input from users. As marketing efforts are increased, this system should result in an increased level of customer service by more efficiently providing information to users and by automatically entering service requests into the Cityworks.

CITY OF NEWPORT NEWS, VIRGINIA

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, 2009. This was the 31st 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.

Recognitions

- For the fourth consecutive year, Newport News has been named a winner in the national competition identifying the *100 Best Communities for Young People*.
- The Department of Public Works was officially approved for Re-Accreditation by the American Public Works Association's (APWA) Accreditation Council on May 14, 2010. This is the third time that Public Works has been evaluated by an APWA sanctioned Evaluation Team. The first Site Assessment and Accreditation Evaluation were completed in 2003. There are 57 Public Works Agencies nationwide who are accredited by APWA.
- The Newport News Waterworks' facilities of Harwood's Mill Water Treatment Plant, Lee Hall Water Treatment Plant and the Maintenance and Operations Center at Lee Hall have received the Extraordinary Environmental Enterprise designation (E-4) from the Virginia Department of Environmental Quality for their environmental initiatives. Waterworks is the first water utility in the state to achieve this designation. E4 is awarded to a facility with a fully-implemented environmental management system. Additionally, the facility must document that it has committed to measures for continuous and sustainable environmental progress and community involvement.
- On February 22, 2010, Vehicle Services was recognized by the Virginia Department of Environmental Quality as an Environmental enterprise (E2) participant in the Virginia Environmental Excellence Program (VEEP).
- The Department of Libraries:
  - Received the C. Herbert Finch Online Publication Award for the online exhibit "The Old Dominion Land Company and the Development of the City of Newport News." The award was presented by the Mid-Atlantic Regional Archives Conference.
  - Received two awards from the Virginia Public Library Directors Association: The Youth Leadership Program of the Wickham Avenue Alliance won the award for the best 2010 Cooperative Program with other Libraries or Agencies for Virginia libraries serving a population of more than 100,000. The program series, "What's Your Story? Share it at Your Library!" was named the 2010 Outstanding Adult Program for Virginia libraries serving a population of more than 100,000.
  - Received three collections of 17 titles each through the "We the People" award. The Library System is one of 4,000 libraries nationwide to receive the award from the National Endowment for the Humanities in partnership with the American Library Association.

CITY OF NEWPORT NEWS, VIRGINIA

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,

Neil A. Morgan
City Manager

LaVerne Lovett
Director of Finance

CITY OF NEWPORT NEWS, VIRGINIA

City Government Officials

Year Ended June 30, 2010

City Council

Joe Frank*	Mayor
Joseph C. Whitaker**	Vice Mayor
Herbert H. Bateman, Jr.	Member
A. Madeline McMillan	Member
Sharon P. Scott	Member
Tina L. Vick..	Member
Patricia P. Woodbury	Member

Office of the City Manager

Neil A. Morgan	City Manager
Alan K. Archer	Assistant City Manager
Cynthia D. Rohlf	Assistant City Manager

Department of Finance

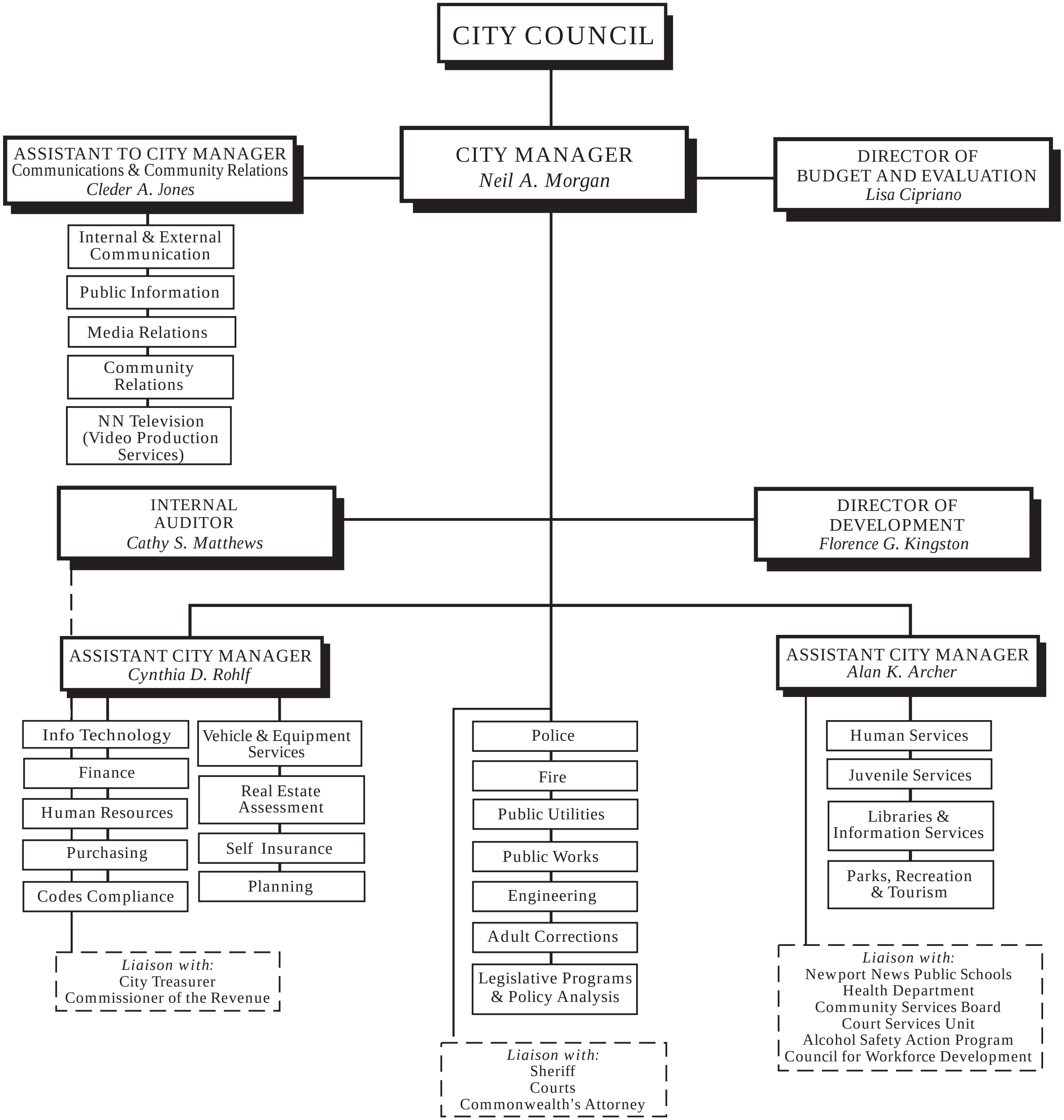
LaVerne Lovett	Director of Finance

Other Officials

Marty Eubank	City Treasurer
Priscilla S. Bele***	Commissioner of the Revenue
Charles G. Young	Real Estate Assessor
Lisa Cipriano	Director of Budget and Evaluation
Cathy S. Matthews	Director of Internal Audit

* McKinley L. Price, DDS – elected Mayor effective July 1, 2010
** A. Madeline McMillan – elected Vice Mayor effective July 1, 2010
*** Elected Commissioner of the Revenue effective January 1, 2010

February 2010



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, 2009

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

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditor's Report

To 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, 2010, 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 the Peninsula Airport Commission, which represents 26% of the respective assets and 3% of the respective operating revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors, whose report thereon has been furnished to us, and our opinions, insofar as it relates to the amounts included for the Peninsula Airport Commission, are based on the report 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 the *Specifications for 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position 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, as of June 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended 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 16, 2010, 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, and 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.

The Management's Discussion and Analysis and the other required supplementary information 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 inquiries of management regarding the methods of measurement 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 financial 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 the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements of the City. The combining and individual nonmajor fund financial 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 all material respects 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 in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Cherry, Bekaert + Holland, LLP

Richmond, Virginia
December 16, 2010

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, 2010. 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) 2010

General Fund

- At the close of the FY 2010, undesignated fund balance for the General Fund was $41.8 million or 10% of FY 2010 total General Fund revenues and transfers in.

- General Fund revenues and transfers decreased $4.1 million or 1.0% below FY 2009, due to a decline in general property taxes, primarily real property taxes. Expenditures and transfers out decreased $2.8 million, 0.7% lower than last fiscal year. In addition, FY 2010 expenditures and transfers out were 0.66% less than budget.

- The City's real estate tax rate of $1.10 per $100 of assessed valuation remained unchanged for FY 2010. The tax rate on personal property of $4.25 of assessed valuation remained unchanged.

Governmental Activities

- The assets of the City, for its governmental activities, exceeded its liabilities at the close of the FY 2010 by $193.7 million *(net assets).* Of this amount, $1.0 million is restricted. In addition, the City ended the year with negative unrestrictive assets of $59.0 million. The existence of a deficit is a result of not having assets accumulated in advance for such long-term liabilities as accrued vacation and pension obligations. Accrued vacation is paid as used or at termination of employment and resources are appropriated each budget year. The pension obligations have accumulated as a result of the City's actual contributions not being equal to the annual required amounts. FY 2010 marks the first year of the City's eight year plan to meet the required contribution.
- The City's total bonded debt decreased by approximately $29.7 million during the current fiscal year, due to the issuance of $2.9 million and principal payments of $32.6 million.

Business Type Activities

- In October 2009, City Council adopted a resolution terminating the King William Reservoir Project (the project) due to the U. S. Army Corps of Engineers North Atlantic Division notifying the City of their decision to suspend the federal permit for the King William Reservoir and to stop all activities previously authorized. As part of the project, the City issued $20.0 million in revenue bonds to the Virginia Resources Authority (VRA). In November 2009, City Council authorized the prepayment of the Water Revenue Bonds, Series 2008, dated August 1, 2008. This prepayment occurred in December 2009 using remaining revenue bond proceeds and Public Utility operating cash. Construction In Progress expenditures of $52.6 million was written-off and recorded as an extraordinary loss.

OVERVIEW OF THE FINANCIAL STATEMENTS

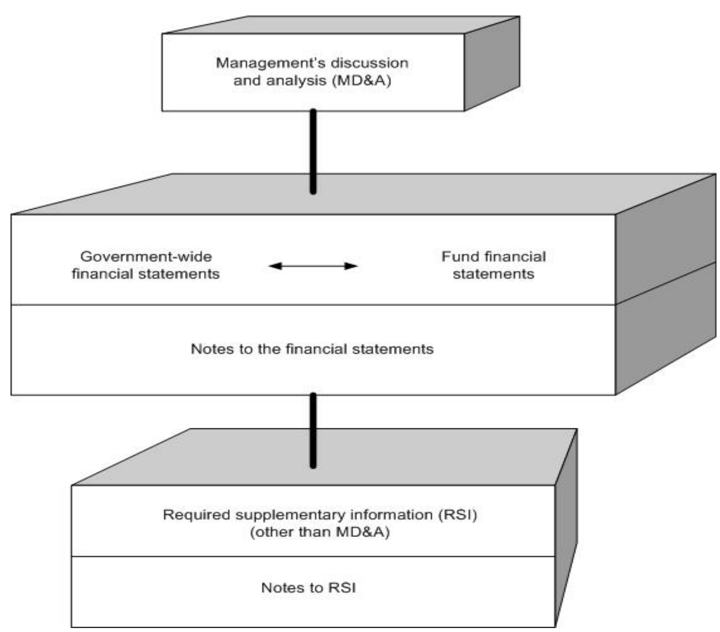
This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: *government-wide financial statements, fund financial statements, and notes to the financial statements*. This report also contains 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.

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



The government-wide financial statements provide both long-term and short-term information about the City's overall financial status. The fund financial statements 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.

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, internal service 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 facility is 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.

- *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. (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 and includes this activity in its government-wide financial statements.

- *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 and other post employment benefits to its employees.

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Statement of Net Assets

The following table reflects the condensed net assets:

Table 1 - Summary of Net Assets (in millions):

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Current and other assets	$ 190.8	195.3	111.3	138.4	302.1	333.7
Capital assets, net	629.8	620.3	400.0	456.8	1,029.8	1,077.1
Total assets	$ 820.6	815.6	511.3	595.2	1,331.9	1,410.8
Current and other liabilities	$ 85.8	80.5	60.5	81.6	146.3	162.1
Long-term liabilities	541.1	551.9	180.5	195.3	721.6	747.2
Total liabilities	$ 626.9	632.4	241.0	276.9	867.9	909.3
Net assets:						
Invested in capital assets, net of related debt	251.7	228.3	238.5	276.7	490.2	505.0
Restricted net assets	1.0	1.5	-	-	1.0	1.5
Unrestricted net assets	(59.0)	(46.6)	31.8	41.6	(27.2)	(5.0)
Total net assets	$ 193.7	183.2	270.3	318.3	464.0	501.5
Total liabilities and net assets	$ 820.6	815.6	511.3	595.2	1,331.9	1,410.8

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 $464.0 million at the close of fiscal year 2010. By far the largest portion of the City's net assets 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. There are no net assets available that may be used to meet the City's ongoing obligations to citizens and creditors.

Governmental Activities

Net assets of the City's governmental activities increased from $183.2 million at June 30, 2009 to $193.7 million at June 30, 2010 as a result of an increase in net assets of $10.5 million as shown on the Statement of Activities and in Table 2 on the next page.

Business-Type Activities

Public Utility is the City's enterprise operation. The net assets of Public Utility decreased from $318.3 million to $270.3 million. The City generally can only use these net assets to finance the continuing operations of its enterprise operation, Public Utility.

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):

		Governmental Activities		Business-Type Activities		Total Primary Government	
Revenues:		2010	2009	2010	2009	2010	2009
Program revenues:							
Charges for services	$	63.6	60.9	72.7	73.8	136.3	134.7
Operating grants and contributions		42.7	45.0	-	-	42.7	45.0
Capital grants and contributions		4.7	2.0	-	-	4.7	2.0
General revenues:							
Property taxes		237.0	233.7	-	-	237.0	233.7
Other taxes		88.6	89.6	-	-	88.6	89.6
Grants and contributions not restricted to specific programs		48.6	49.0	-	-	48.6	49.0
Investment earnings		2.7	3.6	0.5	2.0	3.2	5.6
Miscellaneous		7.5	8.2	5.4	8.3	12.9	16.5
Total revenues		495.4	492.0	78.6	84.1	574.0	576.1
Expenses:							
General government		56.5	67.0	-	-	56.5	67.0
Judicial administration		7.1	7.1	-	-	7.1	7.1
Public safety		119.6	120.2	-	-	119.6	120.2
Public works		72.0	70.6	-	-	72.0	70.6
Health and welfare		52.8	56.5	-	-	52.8	56.5
Education		120.0	116.5	-	-	120.0	116.5
Parks, recreation and culture		32.6	34.4	-	-	32.6	34.4
Community development		10.4	8.8	-	-	10.4	8.8
Public utility		-	-	64.0	62.7	64.0	62.7
Interest on long-term debt		23.9	25.5	-	-	23.9	25.5
Total expenses		494.9	506.6	64.0	62.7	558.9	569.3
Excess (deficiency) before extraordinary item and transfers		0.5	(14.6)	14.6	21.4	15.1	6.8
Extraordinary item:							
Loss on reservoir project termination		-	-	(52.6)	-	(52.6)	-
Transfers		10.0	10.0	(10.0)	(10.0)	-	-
Increase (decrease) in net assets		10.5	(4.6)	(48.0)	11.4	(37.5)	6.8
Beginning Net Assets		183.2	187.8	318.3	306.9	501.5	494.7
Ending Net Assets	$	193.7	183.2	270.3	318.3	464.0	501.5

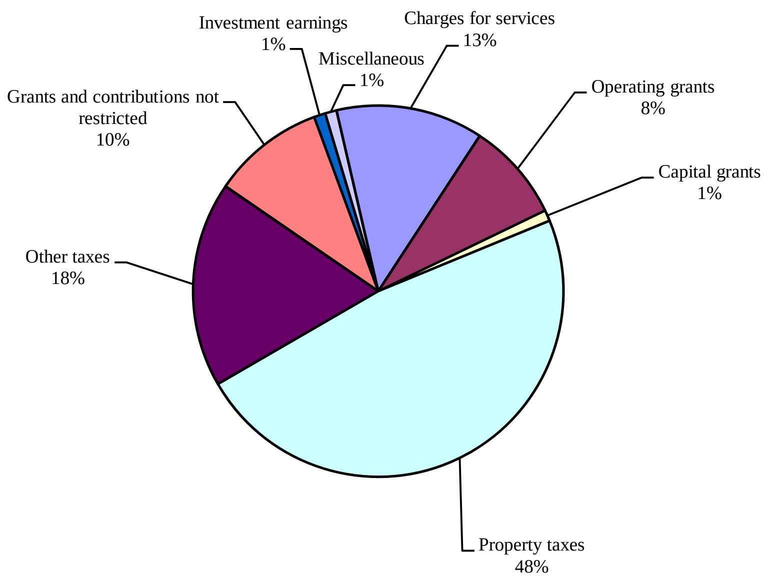
Governmental Activities

The City's total revenues from governmental activities were $495.4 million for the fiscal year ended June 30, 2010. The largest source of revenue ($237.0 million for fiscal year 2010) 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 2010 increased 3.2%, reflecting a significant slowdown in the appreciation in the market value of real estate.

Approximately 66% of the City's revenue from governmental activities comes from some type of tax, and 13% comes from fees charged for services.

The City's expenses cover a wide range of services, with 24% or $119.6 million for fiscal year 2010 related to public safety and 24% or $120.0 million for fiscal year 2010 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 decreased by $48.0 million which is mainly attributed to the termination of a reservoir project. Charges for services make up 93% of total revenues for business-type activities.

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 $97.4 million of which $41.8 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 27% of the total fund expenditures, while total fund balance represents 29% of that same amount.

Debt Service Fund

The debt service fund has a fund balance of $6.5 million. During the current fiscal year, the fund balance increase of $5.2 million is a net result of bonds issued, annual debt payments and a $4.5 million transfer from the General Fund which will be used to pay off the Ferguson/Jefferson Opportunity Site debt.

Bond Fund

The bond fund accounts for the proceeds of all general obligation bond issues except those of the Proprietary Funds. The bond fund accounts decreased from $33.6 million at June 30, 2009 to $11.8 million at June 30, 2010, as a net result of proceeds from a VRA drawdown of approximately $3 million and capital expenditures of $24.8 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. The internal service fund is reported with government activities.

Net assets for the City's business-type activities (Public Utility) decreased by $48.0 million due to a substantial write off of past expenditures associated with a Public Utility reservoir project that was terminated. Charges for services make up 93% of total revenues for business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund (Budget Basis)
Fiscal Year 2010

		Original Budget	Final Budget	Actual
Revenues:				
Taxes	$	315,530,090	315,530,090	324,779,927
Intergovernmental		53,427,749	53,460,304	48,630,187
Other		47,396,870	48,209,650	44,207,885
Total		416,354,709	417,200,044	417,617,999
Expenditures and Transfers:				
Expenditures		371,481,412	371,513,967	361,733,909
Transfers out		44,873,297	45,686,077	52,721,076
Total		416,354,709	417,200,044	414,454,985
Change in fund balance	$	-	-	3,163,014

The difference between the original budget and the final amended budget for the City's General Fund expenditures was approximately $0.84 million (increase in appropriations). The variance is mainly due to the following:

$	0.81	million	Capital Projects - Fire Truck
	0.03	million	Circuit Court Clerk - Technology

Actual General Fund revenues and transfers from other funds were above the final budgeted revenues by $0.4 million. Expenditures and transfers out were under budget by $2.7 million. This positive budget variance is a result of the spending restraints put in place during this fiscal year.

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, 2010 amounts to $1,029.7 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 $12.5 million for governmental activities at the end of the fiscal year (including certain Public Schools projects under construction).
- Construction in progress totaled $1.7 million for business-type activities at the end of the fiscal year and relates to the following projects: Walker's Dam rehabilitation and Copeland Park Tank rehabilitation.
- **City of Newport News' Capital Assets (net of depreciation):**

	Governmental Activities		Business-Type Activities		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Land	$ 82,805,449	82,101,571	17,999,219	10,769,369	100,804,668	92,870,940
Construction in progress	12,526,167	8,048,216	1,743,934	61,901,159	14,270,101	69,949,375
Buildings	237,046,040	242,703,750	117,908,360	121,682,417	354,954,400	364,386,167
Water systems	-	-	234,520,035	231,206,307	234,520,035	231,206,307
Improvements	79,445,309	76,898,286	14,374,389	15,360,754	93,819,698	92,259,040
Machinery and equipment	51,446,273	45,554,629	13,412,823	15,853,866	64,859,096	61,408,495
Infrastructure	166,515,357	164,990,202	-	-	166,515,357	164,990,202
	$ 629,784,595	620,296,654	399,958,760	456,773,872	1,029,743,355	1,077,070,526

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 outstanding debt (including literary loans) of $577.3 million, a decrease of 9.7% from last year, as shown in the table below. Capital leases, landfill liability, accrued vacation, net pension obligations, other post employment benefit obligations and claims payable are not included in these figures.

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

	Governmental Activities		Business-Type Activities		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
General obligation bonds	$ 383.8	413.5	147.1	157.7	530.9	571.2
Literary loans	7.2	8.0	-	-	7.2	8.0
Revenue bonds	-	-	39.2	60.0	39.2	60.0
Total	$ 391.0	421.5	186.3	217.7	577.3	639.2

The amount of the debt outstanding related to School Board activities is $113.1 million of the total outstanding general obligation bonds of the governmental activities.

The City issued new debt during the year totaling $2.9 million in the form of general obligation bonds (loans from the Virginia Resources Authority (VRA).

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.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The unemployment rate in June 2010 for the City of Newport News was 8.0%, which is an increase from the average for 2009 of 6.5%. The City's annual population growth rate decreased from approximately 193,212 at the end of fiscal year 2009 to 193,172 at the end of fiscal year 2010.

The FY 2011 approved budget for the General Fund is $411.0 million, a 2.5% decrease over FY 2010 budget. The FY 2011 budget includes 7,483 positions, a net decrease of 270 positions. Market activity suggests much lower assessed value growth for real estate, and thus less growth in taxes paid in future periods. Due to the declining financial market and the uncertainty due to decreased state funding, the City required all departments to meet an expenditure reduction target for FY 2011.

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.

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CITY OF NEWPORT NEWS, VIRGINIA
Statement of Net Assets
June 30, 2010

	Primary government			Discretely presented component units	
Assets	**Governmental activities**	**Business-type activities**	**Total**	**Public schools**	**Others**
Cash and cash equivalents	$ 118,263,235	46,825,466	165,088,701	41,756,379	10,087,841
Restricted cash and investments	19,445,554	43,515,055	62,960,609	-	18,108,409
Accounts receivable, net	16,109,202	15,152,833	31,262,035	387,888	5,888,518
Receivable from Industrial Development Authority	15,021,481	-	15,021,481	-	-
Receivable from primary government	-	-	-	4,164,431	-
Receivables from other governments	17,988,728	-	17,988,728	16,206,371	9,490,000
Inventory, at cost	1,404,701	3,415,746	4,820,447	984,037	87,785
Land held for lease or resale	-	-	-	-	18,567,924
Net investment in direct financing leases	-	-	-	-	10,806,817
Capital assets:					
Nondepreciable capital assets:					
Land	82,805,449	17,999,219	100,804,668	2,505,084	6,604,658
Construction in progress	12,526,167	1,743,934	14,270,101	-	34,659,297
Depreciable capital assets:					
Buildings	330,965,603	152,185,865	483,151,468	46,094,798	164,536,990
Improvements	146,887,151	-	146,887,151	42,469,253	13,794,841
Water system	-	385,256,227	385,256,227	-	-
Airport assets	-	-	-	-	136,696,848
Machinery and equipment	126,289,514	31,530,537	157,820,051	58,098,041	4,348,503
Infrastructure	462,334,235	-	462,334,235	-	2,543,500
Total capital assets	1,161,808,119	588,715,782	1,750,523,901	149,167,176	363,184,637
Less accumulated depreciation	(532,023,524)	(188,757,022)	(720,780,546)	(77,139,660)	(89,762,195)
Capital assets, net	629,784,595	399,958,760	1,029,743,355	72,027,516	273,422,442
Restricted assets:					
Permanently restricted cash	860,624	-	860,624	-	-
Other assets	1,781,463	2,405,557	4,187,020	14,999,949	1,151,843
Total assets	820,659,583	511,273,417	1,331,933,000	150,526,571	347,611,579
Deferred swap outflow	-	-	-	-	6,534,499
Total assets and deferrals	$ 820,659,583	511,273,417	1,331,933,000	150,526,571	354,146,078
Liabilities and Net Assets					
Liabilities:					
Accounts payable	$ 11,506,739	1,827,697	13,334,436	2,768,570	4,961,085
Accrued liabilities	9,703,129	4,524,483	14,227,612	25,691,157	546,701
Deposits	3,272,650	4,248,924	7,521,574	-	30,491
Unearned revenue	-	-	-	1,194,368	-
Deferred revenue	635,276	36,259,461	36,894,737	-	1,357,681
Payable to Newport News Public Schools	4,164,431	-	4,164,431	-	33,811
Payable to primary government	-	-	-	-	15,021,481
Long term liabilities:					
Due within one year	56,511,294	13,635,000	70,146,294	4,124,205	18,586,014
Due in more than one year	541,154,801	180,508,382	721,663,183	47,282,910	151,653,427
Total liabilities	626,948,320	241,003,947	867,952,267	81,061,210	192,190,691
Net assets:					
Invested in capital assets, net of related debt	251,724,446	238,441,047	490,165,493	57,205,176	136,007,212
Restricted for:					
Capital grants	1,034,412	-	1,034,412	-	-
Capital projects	-	-	-	-	11,170,410
Capital loans	-	-	-	-	1,374,176
Unrestricted (Deficit)	(59,047,595)	31,828,423	(27,219,172)	12,260,185	13,403,589
Total net assets	193,711,263	270,269,470	463,980,733	69,465,361	161,955,387
Total liabilities and net assets	$ 820,659,583	511,273,417	1,331,933,000	150,526,571	354,146,078

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Statement of Activities

Year ended June 30, 2010

		Program revenues			Net (expense) revenue and changes in net assets				
					Primary government				
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total	Public schools	Other component units
Primary government:									
Governmental activities:									
General government	$ 56,496,116	9,241,842	-	4,740,959	(42,513,315)	-	(42,513,315)		
Judicial administration	7,061,964	2,786,553	858,253	-	(3,417,158)	-	(3,417,158)		
Public safety	119,642,698	6,451,048	5,140,582	-	(108,051,068)	-	(108,051,068)		
Public works	71,950,527	37,744,481	13,649,866	-	(20,556,180)	-	(20,556,180)		
Health and welfare	52,805,082	37,568	4,538,708	-	(48,228,806)	-	(48,228,806)		
Education	119,956,981	-	14,916,490	-	(105,040,491)	-	(105,040,491)		
Parks, recreation and culture	32,614,571	6,718,381	45,851	-	(25,850,339)	-	(25,850,339)		
Community development	10,369,291	570,350	3,554,804	-	(6,244,137)	-	(6,244,137)		
Interest on long-term debt	23,923,629	-	-	-	(23,923,629)	-	(23,923,629)		
Total governmental activities	494,820,859	63,550,223	42,704,554	4,740,959	(383,825,123)	-	(383,825,123)		
Business-type activities:									
Public utility	64,078,572	72,719,343	-	-	-	8,640,771	8,640,771		
Total business-type activities	64,078,572	72,719,343	-	-	-	8,640,771	8,640,771		
Total primary government	$ 558,899,431	136,269,566	42,704,554	4,740,959	(383,825,123)	8,640,771	(375,184,352)		
Component units:									
Public schools	$ 334,211,863	7,458,003	67,739,489	1,918,742				(257,095,629)	-
Peninsula Airport Commission	13,650,041	9,265,938	-	13,207,814				-	8,823,711
Economic and Industrial Development Authorities	19,529,361	24,015,570	-	-				-	4,486,209
Total component units	$ 367,391,265	40,739,511	67,739,489	15,126,556				(257,095,629)	13,309,920
General revenues:									
City Taxes:									
General property					236,993,370	-	236,993,370	-	-
E-911 service					737,734	-	737,734	-	-
Local sales and use					20,862,730	-	20,862,730	-	-
Consumers' utility					6,321,381	-	6,321,381	-	-
Consumption					776,672	-	776,672	-	-
Telecom sales and use					12,018,133	-	12,018,133	-	-
Business license					15,266,938	-	15,266,938	-	-
Rental car					1,021,610	-	1,021,610	-	-
Motor vehicle license					3,922,803	-	3,922,803	-	-
Bank stock taxes					1,015,597	-	1,015,597	-	-
Recordation and wills					1,263,938	-	1,263,938	-	-
Tobacco					4,160,343	-	4,160,343	-	-
Hotel and motel room tax					2,969,053	-	2,969,053	-	-
Restaurant food tax					17,765,937	-	17,765,937	-	-
Amusement					493,079	-	493,079	-	-
Total City Taxes					325,589,318	-	325,589,318	-	-
Grants and contributions not restricted to specific programs					48,630,187	-	48,630,187	151,538,786	-
Payment from the City					-	-	-	101,052,200	-
Investment earnings					2,663,324	549,737	3,213,061	22,443	502,926
Miscellaneous					7,466,092	5,381,669	12,847,761	-	273,751
Extraordinary loss					-	(52,612,401)	(52,612,401)	-	-
Transfers					10,000,000	(10,000,000)	-	-	-
Total general revenues and transfers					394,348,921	(56,680,995)	337,667,926	252,613,429	776,677
Change in net assets					10,523,798	(48,040,224)	(37,516,426)	(4,482,200)	14,086,597
Net assets at beginning of year					183,187,465	318,309,694	501,497,159	73,947,561	147,868,790
Net assets at end of year					$ 193,711,263	270,269,470	463,980,733	69,465,361	161,955,387

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Balance Sheet

Governmental Funds

June 30, 2010

Assets		**General fund**	**Debt service fund**	**Bond fund**	**Nonmajor governmental funds**	**Total governmental funds**
Cash and cash equivalents	$	82,845,267	4,634,713	-	29,452,872	116,932,852
Restricted cash		-	1,135,722	18,309,832	-	19,445,554
Accounts receivable, net		13,607,535	-	-	2,501,667	16,109,202
Receivable from component unit		15,021,481	-	-	-	15,021,481
Receivables from other governments		14,203,745	-	-	3,784,983	17,988,728
Inventory, at cost		885,561	-	-	-	885,561
Restricted assets:						
Permanently restricted cash		-	860,624	-	-	860,624
Total assets	$	126,563,589	6,631,059	18,309,832	35,739,522	187,244,002
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	$	6,094,918	49,213	2,045,481	3,119,607	11,309,219
Accrued liabilities		5,809,648	70,500	338,986	194,841	6,413,975
Deposits		3,272,650	-	-	-	3,272,650
Deferred revenue		7,078,463	-	-	207,729	7,286,192
Unearned revenue		635,276	-	-	-	635,276
Payable to Newport News Public Schools		-	-	4,164,431	-	4,164,431
Total liabilities		22,890,955	119,713	6,548,898	3,522,177	33,081,743
Fund balances:						
Reserved for:						
Inventory		885,561	-	-	-	885,561
Encumbrances		5,420,427	-	10,616,454	6,554,185	22,591,066
Unreserved:						
Designated for:						
Imprest funds		22,415	-	-	25	22,440
Revolving funds		2,951,043	-	-	-	2,951,043
Self-insurance activity		17,000,000	-	-	-	17,000,000
Debt service		-	6,511,346	-	-	6,511,346
Applied Research Center		15,021,481	-	-	-	15,021,481
Capital projects		-	-	-	4,720,120	4,720,120
Future Requirements						
General fund		20,609,907	-	-	-	20,609,907
Bond fund		-	-	1,144,480	-	1,144,480
Non-Major - Capital Projects		-	-	-	7,724,627	7,724,627
Non-Major - Special Revenue		-	-	-	2,751,759	2,751,759
Undesignated						
General fund		41,761,800	-	-	-	41,761,800
Non-Major - Special Reveune		-	-	-	9,621,078	9,621,078
Non-Major - Capital Projects		-	-	-	845,551	845,551
Total fund balances		103,672,634	6,511,346	11,760,934	32,217,345	154,162,259
Total liabilities and fund balances	$	126,563,589	6,631,059	18,309,832	35,739,522	187,244,002

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets

June 30, 2010

Fund balances – total governmental funds		$ 154,162,259
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	$ 1,114,271,642	
Less accumulated depreciation	(504,227,201)	
		610,044,441
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		7,286,192
Internal service funds are used by management to charge the costs of certain activities to individual funds.	21,117,964	
Adjustment to add back accrued vacation included below	210,921	
		21,328,885
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.		1,781,463
Unmatured interest payable reported in governmental activities will not be paid with current financial resources and therefore, are not reported in the funds.		(3,225,882)
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	(388,723,692)	
Literary fund bonds	(7,237,192)	
Land lease payable	(1,544,819)	
Landfill liability	(5,568,000)	
Accrued vacation	(17,870,918)	
Workers' compensation and other claims	(17,907,447)	
Net pension obligations	(146,489,000)	
Net OPEB Obligations	(9,402,915)	
Incurred but not reported claims	(2,922,112)	
		(597,666,095)
Net assets of governmental activities		$ 193,711,263

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, 2010

	General fund	Debt service fund	Bond fund	Nonmajor governmental funds	Total governmental funds
Revenues:					
General property taxes	$ 236,183,978	-	-	-	236,183,978
Other local taxes	88,595,948	-	-	-	88,595,948
Licenses and permits	2,846,341	-	-	-	2,846,341
Fines and forfeitures	2,213,372	-	-	-	2,213,372
Intergovernmental	48,630,186	14,916,490	-	29,336,233	92,882,909
Charges for services	17,647,279	-	-	37,875,912	55,523,191
Interest and rent	2,362,452	-	-	290,478	2,652,930
Recovered costs	5,813,660	-	-	-	5,813,660
Miscellaneous	3,324,781	23,466	-	9	3,348,256
Total revenues	407,617,997	14,939,956	-	67,502,632	490,060,585
Expenditures:					
Current operating:					
General government	51,126,494	-	-	127,183	51,253,677
Judicial administration	6,236,491	-	-	-	6,236,491
Public safety	104,197,880	-	-	4,679,253	108,877,133
Public works	12,849,612	-	-	45,914,800	58,764,412
Health and welfare	40,975,637	-	-	8,332,967	49,308,604
Education	114,200,000	-	5,380,616	-	119,580,616
Parks, recreation and culture	25,765,761	-	-	210,643	25,976,404
Community development	5,231,100	-	-	3,728,153	8,959,253
Debt service:					
Principal	-	33,443,765	-	-	33,443,765
Interest and other charges	-	24,355,718	-	-	24,355,718
Capital outlay	-	-	19,420,633	7,765,526	27,186,159
Total expenditures	360,582,975	57,799,483	24,801,249	70,758,525	513,942,232
Excess (deficiency) of revenues over (under) expenditures	47,035,022	(42,859,527)	(24,801,249)	(3,255,893)	(23,881,647)
Other financing sources (uses):					
Transfers in	10,000,000	48,028,805	-	11,558,075	69,586,880
Transfers out	(52,721,076)	-	-	(6,865,804)	(59,586,880)
Bond and note issuance of debt	-	-	2,918,026	-	2,918,026
Total other financing sources (uses)	(42,721,076)	48,028,805	2,918,026	4,692,271	12,918,026
Net changes in fund balances	4,313,946	5,169,278	(21,883,223)	1,436,378	(10,963,621)
Fund balances at June 30, 2009	99,358,688	1,342,068	33,644,157	30,780,967	165,125,880
Fund balances at June 30, 2010	$ 103,672,634	6,511,346	11,760,934	32,217,345	154,162,259

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, 2010

Net change in fund balances – total governmental funds		$ (10,963,621)
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 expenses that relate to assets acquired that do not meet the capitalization threshold of the City:		
Capital outlay expenditures	$ 27,186,159	
Plus: Capital expenditures not included in general fund capital outlays	9,591,398	
Less: Non-capitalized asset	(7,267,269)	
Depreciation expense	(26,739,585)	
		2,770,703
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 assets will revert back to the Schools when the debt is paid in full. These assets are not reported in the governmental funds.		3,611,927
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Deferred revenue decreased by this amount in the current year.		809,392
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	33,443,765	
Debt issued (and related costs)	(2,918,026)	
Premium on issuance of long-term debt	2,276,756	
Current year gain on refunding, net of amortization	53,719	
Current year loss on refunding, net of amortization	(1,128,064)	
Debt issuance costs, net of amortization	(179,839)	
		31,548,311
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	432,089	
Landfill liability	205,000	
Accrued vacation	1,785,798	
Net pension obligation	(18,926,000)	
Net OPEB obligation	(1,290,590)	
Workers' compensation and other claims	(2,057,913)	
Incurred but not reported liabilities	(714,510)	
		(20,566,126)
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 and Write-offs on capital leaseses made in the current year		533,430
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).		2,779,782
Change in net assets of governmental activities		$ 10,523,798

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA
Statement of Net Assets
Proprietary Funds
June 30, 2010

Assets		**Major Fund - Public Utility**	**Internal Service Fund**
Current assets:			
Cash and cash equivalents	$	46,825,466	1,330,383
Restricted cash		43,515,055	—
Accounts receivable, net		15,152,833	—
Inventory		3,415,746	519,140
Total current assets		108,909,100	1,849,523
Noncurrent assets:			
Capital assets:			
Nondepreciable capital assets:			
Land		17,999,219	20,257
Construction in progress		1,743,934	—
Depreciable capital assets:			
Buildings		152,185,865	3,469,775
Improvements		—	200,961
Water system		385,256,227	—
Machinery and equipment		31,530,537	43,845,484
Total capital assets		588,715,782	47,536,477
Less accumulated depreciation		(188,757,022)	(27,796,323)
Capital assets, net		399,958,760	19,740,154
Other assets		2,405,557	—
Total noncurrent assets		402,364,317	19,740,154
Total assets	$	511,273,417	21,589,677
Liabilities and Net Assets			
Liabilities:			
Current liabilities:			
Accounts payable	$	1,827,697	197,520
Accrued liabilities		4,524,483	274,193
Deferred revenue		36,259,461	—
Current portion of general obligation and revenue bonds payable		13,635,000	—
Total current liabilities		56,246,641	471,713
Noncurrent liabilities:			
Deposits		4,248,924	—
General obligation bonds payable, net of current portion		134,225,000	—
Revenue bonds payable		38,470,000	—
Premium on bonds payable		7,813,382	—
Total noncurrent liabilities		184,757,306	—
Total liabilities		241,003,947	471,713
Net assets:			
Invested in capital assets, net of related debt		238,441,047	19,740,154
Unrestricted		31,828,423	1,377,810
Total net assets		270,269,470	21,117,964
Total liabilities and net assets	$	511,273,417	21,589,677

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, 2010

		Major Fund - Public Utility	Internal Service Fund
Operating revenues:			
Water sales	$	59,386,962	-
Charges for services		10,702,508	10,117,816
Miscellaneous		2,629,873	7,498
Total operating revenues		72,719,343	10,125,314
Operating expenses:			
Personal services		20,787,550	2,451,549
Contractual services		11,208,879	113,892
Internal services		1,517,751	73,633
Materials and supplies		5,440,446	4,567,136
Depreciation		14,161,676	3,386,999
Other		3,742,191	-
Total operating expenses		56,858,493	10,593,209
Operating income (loss)		15,860,850	(467,895)
Nonoperating revenues (expenses):			
Interest revenue		549,737	10,394
Gain on disposal of capital assets		157,381	69,085
Meter and service connection fees		6,532,422	-
Amortization, cost of issuing bonds		(173,382)	-
Loss on long-term debt		(1,134,752)	-
Interest expense		(7,220,079)	-
Total nonoperating revenues (expenses)		(1,288,673)	79,479
Income (loss) before capital contributions, extraordinary item and transfers out		14,572,177	(388,416)
Capital contributions for capital assets		-	3,192,790
Extraordinary item:			
Loss on reservoir project termination		(52,612,401)	-
Transfers out		(10,000,000)	-
Change in net assets		(48,040,224)	2,804,374
Net assets at June 30, 2009		318,309,694	18,313,590
Net assets at June 30, 2010	$	270,269,470	21,117,964

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA

Statement of Cash Flows

Proprietary Funds

Year ended June 30, 2010

		Major Fund - Public Utility	Internal Service Fund
Cash flows from operating activities:			
Receipts from customers	$	68,061,772	10,125,314
Payments to suppliers		(19,871,169)	(4,749,567)
Payments to employees		(21,348,763)	(2,451,549)
Other payments		(3,742,192)	—
Net cash provided by operating activities		23,099,648	2,924,198
Cash flows from capital and related financing activities:			
Acquisition of capital assets		(10,095,242)	(6,865,892)
Capital asset contributions		6,532,422	3,192,790
Proceeds from sale of capital assets		374,412	442,667
Repayment and retirement of long-term debt		(31,390,000)	—
Interest paid		(8,649,977)	—
Net cash provided by (used in) capital and related financing activities		(43,228,385)	(3,230,435)
Cash flows used in noncapital financing activities - Transfer to other funds		(10,000,000)	—
Cash flows provided by investing activities - Interest received		549,738	10,394
Increase (decrease) in cash and restricted cash		(29,578,999)	(295,843)
Cash and restricted cash at beginning of year		119,919,520	1,626,226
Cash and restricted cash at end of year	$	90,340,521	1,330,383
Reported as:			
Cash and cash equivalents	$	46,825,466	1,330,383
Restricted cash		43,515,055	—
Total cash & cash equivalents	$	90,340,521	1,330,383
Cash flows from operating activities:			
Operating income (loss)	$	15,860,850	(467,895)
Adjustments to reconcile operating income to cash provided by operating activities:			
Depreciation		14,161,676	3,386,999
Changes in assets and liabilities:			
Accounts receivable		(3,742,937)	—
Inventories		169,649	(1,783)
Accounts payable		(1,619,882)	47,741
Deferred revenue		(914,634)	—
Accrued liabilities		(561,212)	(40,864)
Deposits		(253,862)	—
Total adjustments		7,238,798	3,392,093
Net cash provided by operating activities	$	23,099,648	2,924,198

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010

Assets		Pension & Other Post Employment Benefits	Agency Funds
Cash and cash equivalents	$	4,257,013	4,232,558
Cash and cash equivalents with trustee		13,800,141	–
Investments			
Corporate and government bonds		175,921,396	–
Common stock		274,527,283	–
International stock		72,864,975	–
International emerging markets		31,900,154	–
Real estate		63,219,322	–
Accounts receivable		5,177,005	3,785,645
Interest receivable		1,314,951	–
Dividend receivable		378,393	–
Sales receivable		2,607,105	–
Inventory		–	2,777
Total assets	$	645,967,738	8,020,980
Liabilities			
Accounts payable	$	2,298,584	1,301,306
Accrued vacation		41,602	–
Due to other governments		–	4,022,794
Due to other agencies		–	2,696,880
Purchases payable		1,864,941	–
Total liabilities		4,205,127	8,020,980
Net Assets			
Assets held in trust:			
Postemployment healthcare benefits		10,380,906	–
Employees' retirement		631,381,705	–
Total net assets		641,762,611	–
Total liabilities and net assets	$	645,967,738	8,020,980

See accompanying notes to basic financial statements.

CITY OF NEWPORT NEWS, VIRGINIA
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds - Employees' Retirement Trusts for Pension & Other Post Employment Benefits
Year ended June 30, 2010

		Pension & Other Post Employment Benefits
Additions (decreases):		
Employer Contributions:		
City General Fund	$	26,377,021
Waterworks Fund		2,550,239
School Operating Fund		4,177,831
Other Contributions:		
Income from Leave Exchange		162,679
Employee Buy-back		1,175,258
Medicare part D - City		195,494
Total contributions		34,638,522
Investment income:		
Net appreciation - bonds		17,210,224
Net appreciation - stocks		46,965,856
Interest		8,146,620
Dividends		5,946,503
Real estate operating loss, net		(9,044,957)
Commission recapture		143,543
Other investment income		14,995
Total investment gain		69,382,784
Less investment expenses:		
Other investment expenses		(3,838,853)
Net investment gain		65,543,931
Total increase		100,182,453
Deductions:		
Benefits:		
Service		50,783,501
Occupational death		66,682
Nonoccupational death		17,050
Occupational disability		254,224
Nonoccupational disability		674,695
Reversionary annuity		2,799,079
Insurance benefits		9,438,701
Total benefits		64,033,932
Administrative expenses:		
Personal services		519,603
Board fees		10,335
Consultant fees		205,531
Actuary fees		210,056
Audit fees		18,000
Medical disability exam fees		6,946
Total administrative expenses		970,471
Total deductions		65,004,403
Net increase prior to asset transfer to Newport News Public Schools		35,178,050
Less: Cash distribution to Newport News Public Schools		(1,587,570)
Net increase/(decrease)		33,590,480
Net assets held in trust for pension benefits at June 30, 2009		608,172,131
Net assets held in trust for pension benefits at June 30, 2010	$	641,762,611

See accompanying notes to basic financial statements.

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(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 Fund serves all the citizens of the City and is 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. This fund is reported as an enterprise fund.

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, 26 elementary, eight 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.

- 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, and includes the Parking Authority. 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 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:

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.

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 who are not covered under the Virginia Retirement System (VRS). A supplement plan is provided for School employees covered under VRS. All City employees hired on and after March 1, 2010 are covered under VRS and excluded from the City's pension fund. All School employees hired or rehired on or after July 1, 2009 are excluded from the City's pension fund. The City's Pension Fund is accounted for in essentially the same manner as proprietary funds.

Other Post Employment Benefits' (OPEB) Fund accounts for all contributions and investments accumulated for employees' medical benefits and life insurance coverage at retirement. The fund pays for all related expenses incurred as well as health, dental and life insurance benefits. The City's OPEB Fund covers all full-time City employees. Effective July 1, 2009, Newport News School System separated from the City's OPEB Fund and established a separate Trust. The City's OPEB 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, activities of the Community Development Block Grant Program, individual grant programs, community services programs for mental health and substance abuse, and 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.

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.

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 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. 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 2010 was $1.10 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 2010 tax rates per $100 of assessed value were:

Mobile homes	$1.10
Trawlers	$0.90
Pleasure boats	$1.00
Machinery & Tools	$3.75
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, 2010 is composed of the following:

General Fund –		
Taxes receivable:		
Real Estate	$	845,419
Personal Property		3,744,727
Total Taxes	$	4,590,146
Special Revenue Funds – Accounts receivable	$	1,440,995
Public Utility Fund - Accounts receivable	$	382,000

(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. Beginning in FY 2009, capital assets are defined by the government as assets with an initial, individual cost of more than $5,000. At the end of June 30, 2008, the capitalization threshold was $2,000. The government applied the $5,000 threshold prospectively. 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.

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 $80,752 was capitalized during fiscal year 2010.

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, 2010, the City holds capital assets related to school property with a net book value of $141,534,048.

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	40 - 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.

(Continued)

(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 $53 to $70 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/Net Assets

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.

Net assets are comprised of three categories: (1) net assets invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The first category represents the portion of net assets that is associated with non-liquid, capital assets, less the associated outstanding debt. Restricted net assets reflect the assets whose use is restricted by outside parties or legal constraints. Net assets, which are neither restricted nor invested in capital assets, are reported as unrestricted net assets.

(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 and Investments

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.

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:

	Carrying amount
Cash and deposits:	
Cash on hand	$ 110,411
Deposits with banks	24,833,490
Total cash and deposits	24,943,901
Investments:	
Local Government Investment Pool (LGIP)	204,702,290
Deposits with banks – Money market accounts	2,803,187
Deposits with banks – Repurchase agreements	2,291,225
Commonwealth cash reserve	5,008,808
VA SNAP	56,800,785
Common Stock – IDA	395
Debt Service – QZAB Sinking Fund	860,624
IDA escrow funds	5,683,906
Total deposits and investments	$ 303,095,121

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

Statements of net assets:	June 30, 2010
Primary Government:	
Cash and cash equivalents	$ 165,088,701
Restricted cash	63,821,233
Component Units:	
Cash and cash equivalents	51,844,220
Restricted cash	18,108,409
Fiduciary Funds (page 23):	
Cash and cash equivalents – Agency Funds	4,232,558
Total cash and investments	$ 303,095,121

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. 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, 2010, the carrying value and weighted average maturity of the city's investments are listed below.

Custodial Credit Risk – Deposits: The City's deposits at June 30, 2010, were fully insured or collateralized by securities held in the name of the City of Newport News by the City's custodial banks.

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, 2010, 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.

Assets held by the Treasurer	**Fair Value**	**Credit Rating**	**Weighted Average Maturity**
Local Government Investment Pool (LGIP)	$ 204,702,290	AAAm	N/A
Money Market Mutual Funds – Underlying:			
U.S. Agencies	1,398,300	AAA	0.51
U.S. Gov. Bonds	1,404,887	AAA	0.51
Money Market Mutuals	320,238	N/A	N/A
Commonwealth Cash Reserve (AIM) – Underlying:			
U.S. Agencies	4,688,570	AAA	1.77
VA SNAP	56,800,785	AAAm	0.00
Total Deposits and Investments	$ 269,315,070		

N/A – Not applicable

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Deposits of Pension and Other Post Employment Benefits (OPEB) Funds

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

	Carrying amount
Cash and deposits:	
Deposits with banks	$ 2,700,698
Deposits with banks – Repurchase agreements	1,556,315
Pension trust fund money markets	13,800,141
Total cash and deposits	$ 18,057,154
Investments:	
Common & international stocks	$175,921,396
Corporate and government bonds	379,292,412
Pension fund real estate funds	63,219,322
Total deposits and investments	$636,490,284

The Pension and OPEB funds' cash and investment as of June 30, 2010 are classified in the accompanying financial statements as follows:

	June 30, 2010
Cash and cash equivalents	$ 4,257,013
Cash and cash equivalents with trustee	13,800,141
Investments	
Corporate and government bonds	175,921,396
Common stock	274,527,283
International stock	72,864,975
International emerging markets	31,900,154
Real estate	63,219,322
Total deposits and investments	$ 636,490,284

Investment Policy of the Pension and OPEB Funds

The Pension and OPEB Funds (the Funds) 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. The Funds' investments are subject to restrictions placed by policies of the City Council and the Retirement Board.

Credit Risk of the Pension and OPEB Funds

The credit risk profile for the Pension and OPEB Funds' securities by investment type as of June 30, 2010 is as follows:

	S & P's Ratings as of June 30, 2010									
Investment Types	**TOTAL**	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**CC**	**Not Rated**
Asset-backed	$ 10,869,006	9,489,798	-	661,205	718,003	-	-	-	-	-
Corporate Bonds	40,353,151	391,366	7,584,641	32,105,414	271,730	-	-	-	-	-
Foreign Currency	551,591	-	-	-	-	-	-	-	-	551,591
Mortgage-backed	72,511,948	51,181,881	1,485,506	5,956,541	3,042,222	1,104,204	1,101,415	5,135,954	1,226,518	2,277,707
Mutual Funds	86,606,774	-	-	-	-	-	-	-	-	86,606,774
Real Estate Inv.	1,152,383	-	-	-	-	-	-	-	-	1,152,383
Short-Term	13,248,005	-	-	-	-	-	-	-	-	13,248,005
U.S. Agencies	35,195,495	35,195,495	-	-	-	-	-	-	-	-
U.S. Treasury	16,991,796	16,991,796	-	-	-	-	-	-	-	-
Warrants	853	-	-	-	-	-	-	-	-	853
Non-fixed Assets	359,009,282	-	-	-	-	-	-	-	-	359,009,282
Total	$ 636,490,284	113,250,336	9,070,147	38,723,160	4,031,955	1,104,204	1,101,415	5,135,954	1,226,518	462,846,595

Concentration of Credit Risk – Pension and OPEB Funds

There were no investments in any one issuer that represented five percent (5%) or more of the Funds' investments.

Custodial Risk – Pension and OPEB Funds

The Funds' Custodian (State Street Bank) holds investment securities in the Funds' name. Accordingly, the Funds are not exposed to custodial credit risk.

Foreign Currency Risk – Pension and OPEB Funds

The Funds do not have a formal policy to limit foreign currency risk. Risk of loss arises from changes in currency exchange rates. The Funds exposure to foreign currency risk is as follows:

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2010 Foreign Currency Risk

Investment	Currency	Fair Value
Common stock	Euro currency	$ 6,898,270
Preferred stock	Euro currency	106,129
Rights	Euro currency	1,142
Cash equivalent	Euro currency	712,799
Common stock	Japanese yen	5,957,129
Cash equivalent	Japanese yen	55,511
Common stock	New Zealand dollar	94,540
Common stock	Pound sterling	3,247,738
Common stock	Swiss krona	376,686
Common stock	Swiss franc	707,552
Total		$ 18,157,496

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(3) Accounts Receivable

Net Accounts receivable in the statement of net assets are as follows:

		Governmental activities	Business-type activities
Taxes receivable:			
Real Estate	$	5,773,652	-
Personal Property		3,194,581	-
Total taxes receivable, net		8,968,233	-
Accounts receivable		7,140,969	15,152,833
Total receivables, net	$	16,109,202	15,152,833

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:

		General	Public Utility	Fiduciary Funds	Nonmajor Funds	Total
Receivables:						
Taxes	$	13,558,379	-	-	-	13,558,379
Accounts		4,639,302	15,534,833	8,962,650	3,942,662	33,079,447
Intergovernmental:						
Federal		1,066,063	-	-	2,099,373	3,165,436
State		13,137,682	-	-	1,685,610	14,823,292
Gross receivables		32,401,426	15,534,833	8,962,650	7,727,645	64,626,554
Less allowance for doubful accounts		(4,590,146)	(382,000)	-	(1,440,995)	(6,413,141)
Net total receivables	$	27,811,280	15,152,833	8,962,650	6,286,650	58,213,413

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 $0.2 million was reported in the governmental nonmajor funds. The general fund deferred revenue of $7.1 million includes approximately $7.0 million in property tax deferrals.

(4) Capital Assets, Net

Capital asset activity for the year ended June 30, 2010 was as follows:

Primary Government

		July 1, 2009		Increases	Decreases	June 30, 2010
Governmental activities:						
Capital assets, not being depreciated:						
Land	$	82,101,571		703,878	-	82,805,449
Construction in progress		8,048,216		11,374,994	6,897,043	12,526,167
Total capital assets, not being depreciated		90,149,787		12,078,872	6,897,043	95,331,616
Capital assets, being depreciated:						
Buildings		330,350,108	*	615,495	-	330,965,603
Improvements		139,399,107	*	7,488,044	-	146,887,151
Machinery and equipment		113,255,023		16,759,589	3,725,098	126,289,514
Infrastructure		452,332,240		10,001,995	-	462,334,235
Total capital assets being depreciated		1,035,336,478		34,865,123	3,725,098	1,066,476,503
Less accumulated depreciation for:						
Buildings		87,777,863		6,141,700	-	93,919,563
Improvements		62,369,316		5,072,526	-	67,441,842
Machinery and equipment		67,700,394		10,435,518	3,292,671	74,843,241
Infrastructure		287,342,038		8,476,840	-	295,818,878
Total accumulated depreciation		505,189,611		30,126,584	3,292,671	532,023,524
Total capital assets being depreciated, net		530,146,867		4,738,539	432,427	534,452,979
Capital assets, net	$	620,296,654		16,817,411	7,329,470	629,784,595

*Buildings in the amount of $200,961 has been reclassified as Improvements.

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

General Government	$	3,857,769
Judicial Administration		403,506
Public Safety		3,398,832
Public Works		9,210,058
Health and Welfare		160,210
Education		3,988,292
Parks, Recreation and Culture		4,880,578
Community Development		803,846
Non-departmental		36,494
Internal Service Fund		3,386,999
	$	30,126,584

Construction in progress for the City at June 30, 2010 is composed of the following project authorizations (in millions):

	Project Authorization	Expended as of June 30, 2010	Balance of Authorization	Future Funding Requirements
General Government	$ 56.4	0.7	55.7	53.3
Judicial	4.2	4.2	-	-
Health & Welfare	2.0	-	2.0	-
Public Safety	29.1	1.5	27.6	-
Public Works	3.1	3.1	-	-
Parks and Recreation	19.7	1.7	18.0	17.2
Economic Development and Urban Renewal	34.7	-	34.7	20.5
Public Schools	1.5	1.3	0.2	41.1
Totals	$ 150.7	12.5	138.2	132.1

In addition, the City had commitments of approximately $80.0 million relating to infrastructure at June 30, 2010.

Business-type Activities:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Public Utility:				
Capital assets, not being depreciated:				
Land	$ 10,769,369	7,230,030	180	17,999,219
Construction in progress	61,901,159	4,489,561	64,646,786	1,743,934
Total capital assets, not being depreciated	72,670,528	11,719,591	64,646,966	19,743,153
Capital assets, being depreciated:				
Buildings	152,089,905	95,960	-	152,185,865
Improvements	376,052,772	9,907,226	703,771	385,256,227
Machinery and equipment	32,220,678	517,871	1,208,012	31,530,537
Total capital assets being depreciated	560,363,355	10,521,057	1,911,783	568,972,629
Less accumulated depreciation for:				
Buildings	30,407,487	3,870,018	-	34,277,505
Improvements	129,485,711	7,376,945	500,853	136,361,803
Machinery and equipment	16,366,813	2,914,713	1,163,812	18,117,714
Total accumulated depreciation	176,260,011	14,161,676	1,664,665	188,757,022
Total capital assets being depreciated, net	384,103,344	(3,640,619)	247,118	380,215,607
Capital assets, net	$ 456,773,872	8,078,972	64,894,084	399,958,760

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

Public Utility	$14,161,676

Discretely Presented Component Units

	Balance July 1, 2009	Increases	Decreases	Adjustment*	Balance June 30, 2010
Public Schools:					
Capital assets, not being depreciated:					
Land	$ 2,505,084	-	-	-	2,505,084
Construction in progress	340,127	203,239	543,366	-	-
Total capital assets, not being depreciated	2,845,211	203,239	543,366	-	2,505,084
Capital assets, being depreciated:					
Buildings	46,004,194	90,604	-	-	46,094,798
Improvements	39,216,182	1,885,698	-	1,367,373	42,469,253
Machinery and equipment	56,269,131	3,847,020	3,049,986	1,031,876	58,098,041
Total capital assets being depreciated	141,489,507	5,823,322	3,049,986	2,399,249	146,662,092
Less accumulated depreciation for:					
Buildings	23,119,885	748,492	-	1,962,637	25,831,014
Improvements	9,919,948	1,772,071	-	1,367,373	13,059,392
Machinery and equipment	37,288,556	4,798,643	3,558,530	(279,415)	38,249,254
Total accumulated depreciation	70,328,389	7,319,206	3,558,530	3,050,595	77,139,660
Total capital assets being depreciated, net	71,161,118	(1,495,884)	(508,544)	(651,346)	69,522,432
Capital assets, net	$ 74,006,329	(1,292,645)	34,822	(651,346)	72,027,516

Depreciation of $7,319,206 was charged to the Public School’s governmental functions.

Construction in progress for the Public Schools at June 30, 2010 is composed of project authorizations of $20,937,718 amounts expended through June 30, 2010 of $6,762,195 with a remaining balance of $14,175,523.

*Adjustments in cost improvements and in accumulated depreciation and improvements are the result of the following situation: A state law known as Assets Held Tenancy In Common (AHTIC) permits the City to record capital assets owned by the School Board on the City books to offset the approximate value of general bonded debt issued for school projects. This law has been in effect for approximately ten years. During the ten-year period various assets have been swapped back and forth between the City and the School Board depending on the value needed to offset the bonded debt.

		Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
E/IDA:					
Capital assets, not being depreciated -					
Construction in progress	$	37,097,732	5,237,543	20,380,637	21,954,638
Capital assets, being depreciated:					
Buildings		148,120,307	16,416,682	-	164,536,989
Improvements		13,894,299	37,763	137,221	13,794,841
Infrastructure		2,536,000	7,500	-	2,543,500
Machinery and equipment		84,674	-	-	84,674
Total capital assets being depreciated		164,635,280	16,461,945	137,221	180,960,004
Less accumulated depreciation for:					
Buildings		22,169,223	3,407,746	-	25,576,969
Improvements		5,343,255	362,997	91,480	5,614,772
Infrastructure		327,143	97,393	-	424,536
Machinery and equipment		84,674	-	-	84,674
Total accumulated depreciation		27,924,295	3,868,136	91,480	31,700,951
Total capital assets being depreciated, net		136,710,985	12,593,809	45,741	149,259,053
Capital assets, net	$	173,808,717	17,831,352	20,426,378	171,213,691

		Balance July 1, 2009		Increases	Decreases	Balance June 30, 2010
PAC:						
Capital assets, not being depreciated -						
Land	$	6,604,658	*	-	-	6,604,658
Construction in progress		9,924,791		17,430,744	14,650,876	12,704,659
Total capital assets not being depreciated		16,529,449		17,430,744	14,650,876	19,309,317
Capital assets, being depreciated:						
Airfield		72,290,174	*	-	2,374	72,287,800
Terminal		49,001,775		13,557,605	60,593	62,498,787
Other		3,207,392		1,093,271	36,834	4,263,829
Machinery and equipment		1,910,261		-	-	1,910,261
Total capital assets being depreciated		126,409,602		14,650,876	99,801	140,960,677
Less accumulated depreciation for:						
Airfield		30,604,982		2,958,776	-	33,563,758
Terminal		18,368,229		1,551,519	38,327	19,881,421
Other		2,450,591		292,046	36,835	2,705,802
Machinery and equipment		1,910,262		-	-	1,910,262
Total accumulated depreciation		53,334,064		4,802,341	75,162	58,061,243
Total capital assets being depreciated, net		73,075,538		9,848,535	24,639	82,899,434
Capital assets, net	$	89,604,987		27,279,279	14,675,515	102,208,751

* Airfield in the amount of $425,799 has been reclassifed as land. The asset has never been depreciated.

(Continued)

(5) Interfund Receivables, Payables, and Transfers

Interfund balances result 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.

The Primary Government did not have interfund balances as of June 30, 2010.

Due to / from Primary Government and component units:

Receivable Entity	Payable Entity	Amount
City of Newport News	Industrial Development Authority	$15,021,481
Newport News Public Schools	City of Newport News	4,164,431

The IDA Payable of $15,021,481 represents the outstanding balance of the City's financing of the Applied Research Center (ARC). The repayment includes interest at 3.729%. The IDA's annual payments to the City represent net revenues from the ARC.

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

	Transfers to Other Funds Operating	Transfers from Other Funds Operating
General Fund	$ 52,721,076	10,000,000
Debt Service Fund	-	48,028,805
Nonmajor governmental funds	6,865,804	11,558,075
Public Utility	10,000,000	-
Total interfund transfers	$ 69,586,880	69,586,880

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.

(6) Lease Agreements

(a) Capital Lease Payments – Primary Government

Equipment: In FY 2009, $387,812 was recorded as the cost of a new equipment capital lease, with a present value of $360,965 at the end of that year. During FY 2010, it was discovered that the equipment is a rental. The accounting records have been corrected in FY 2010 and the equipment will no longer be noted as a capital lease.

Land: The City has a lease agreement with Mariner's Museum through 2017 to finance the acquisition of a parcel of land. The lease is accounted for as a capital lease and recorded at the present value of the future minimum lease payments at the date of inception. The cost of the land is $3,150,000 and is included in capital assets. The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2010 were as follows:

Years ending June 30:	
Land Parcel	
2011	$ 270,811
2012	270,811
2013	270,811
2014	270,811
2015	270,811
2016 - 2017	541,622
Total	$ 1,895,677
Less Interest	350,858
Present Value	$ 1,544,819

(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	2,954,247
Less accumulated depreciation	(974,247)
Net assets acquired through capital leases	$ 3,415,000

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2010, were as follows:

Years ending June 30:	
2011	$ 918,632
2012	722,420
2013	335,215
2014	330,168
2015	99,982
2016-2020	401,485
Total minimum lease payments	$ 2,807,902
Less amounts representing interest	(395,079)
Present value of minimum capital lease payments	$ 2,412,823

(c) Operating Lease Payments – Component Units

The School Board leases machinery, equipment and buildings under non-cancellable operating leases.

The E/IDA lease land and property in Newport News. Original lease terms ranged from one to twenty years.

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

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

		Schools	E/IDA	PAC
Years ending June 30:				
2011	$	596,710	825,845	11,706
2012		572,228	828,186	11,040
2013		576,561	829,979	11,040
2014		580,980	1,294,726	10,120
2015		585,488	1,338,675	-
2016 - 2020		1,073,229	4,965,375	-
2021 - 2025		-	4,800,000	-
2026 - 2027		-	1,040,000	-
	$	3,985,196	15,922,786	43,906

(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 E/IDA's investment in property in operating leases:

Land	$ 4,246,965
Buildings	88,988,655
Parking Lots	3,502,486
Less accumulated depreciation	(22,531,345)
Net investment in property held for lease	$ 74,206,761

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

Minimum future rental income on operating leases as of June 30, 2010 is as follows:

		E/IDA	PAC
Year ending June 30:			
2011	$	9,809,434	2,087,327
2012		9,438,945	1,837,235
2013		7,337,373	1,817,228
2014		7,839,061	484,574
2015		5,711,902	473,280
2016-2020		18,074,532	6,022,778
2021-2025		7,176,024	—
2026-2030		4,904,238	—
Total	$	70,291,509	12,722,422

Rental income on operating leases for year ended 2010 was $10,130,076 and $2,255,311 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, 2010:

Minimum lease payments to be received	$ 12,647,324
Less unearned income	(1,840,507)
Net investment in direct financing leases	$ 10,806,817

Minimum future rental income on these direct financing leases as of June 30, 2010 is as follows:

Year ending June 30:		
2011	$	1,978,585
2012		1,978,585
2013		1,978,585
2014		1,978,585
2015		1,978,585
2016 - 2020		2,754,399
Total	$	12,647,324

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(7) Long-Term Liabilities

(a) A summary of changes in long-term liabilities for governmental activities for the year ended June 30, 2010 follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Due within one year
Bonds payable:					
General obligation bonds	$ 413,481,474	2,918,026	(32,646,536)	383,752,964	33,398,008
Deferred amounts:					
Add bonds premiums	14,917,061	—	(2,276,756)	12,640,305	2,105,022
Net loss on refunded bonds	(8,743,922)	—	1,074,345	(7,669,577)	1,064,238
Total bonds payable	419,654,613	2,918,026	(33,848,947)	388,723,692	36,567,268
Literary loan bonds	8,034,421	—	(797,229)	7,237,192	519,767
Capital leases payable	360,965	—	(360,965)	—	—
Land lease payable	1,717,284	—	(172,465)	1,544,819	183,103
Landfill liability	5,773,000	—	(205,000)	5,568,000	215,000
Accrued vacation	19,656,716	11,583,116	(13,368,914)	17,870,918	12,151,782
Net pension obligation	127,563,000	50,853,000	(31,927,000)	146,489,000	—
Net OPEB obligation	8,112,325	13,423,451	(12,132,861)	9,402,915	—
Workers' comp. and other claims	15,849,534	6,162,746	(4,104,833)	17,907,447	3,952,262
Incurred but not reported medical claims	2,207,602	32,022,120	(31,307,610)	2,922,112	2,922,112
Total long-term liabilities	$ 608,929,460	116,962,459	(128,225,824)	597,666,095	56,511,294

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

General obligation bonds of $31.0 million are authorized but unissued.

On December 16, 2009, the City received a loan of $5,720,000 from the Virginia Resources Authority (VRA). This loan will be paid over twenty years at an annual interest rate of 3.4%. The loan will be used to finance sewer rehabilitation projects and other capital improvements to the wastewater treatment and sanitary sewer system of the City. Through June 30, 2010, $1,866,487 has been drawn against the loan. In addition, the City had drawdowns of VRA loan 08 amounting to $1,051,539.

At June 30, 2010, approximately $56 million is 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 $5.6 million liability at June 30, 2010 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 2010. Actual costs may be higher due to inflation, technology changes or regulation changes.

Outstanding general obligation bonds at June 30, 2010, 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, 2010
VPSA 91	07/15/91	07/15/11	6.40%	$ 509,223
VRA 93D	09/17/93	06/01/15	4.50%	297,453
VRA 94A	06/02/94	01/01/16	4.50%	1,686,987
VMPL 95C	09/28/95	07/15/14	4.25%	3,037,565
VPSA 95C	12/01/95	07/15/15	5.20%	2,060,774
VRA 96C	01/24/96	10/01/16	4.75%	1,238,603
VRA 97A	01/30/97	10/01/17	4.75%	1,351,722
VRA 98A	01/22/98	12/01/17	4.75%	1,091,162
VRA 99A	03/09/99	12/01/19	4.30%	1,580,851
VRA 00A	03/01/00	03/01/21	3.50%	1,768,494
VPSA 00B	11/16/00	07/15/21	5.15%	3,535,940
VRA 01A	04/24/01	05/01/22	4.10%	1,477,254
Series 01A	09/15/01	09/15/21	4.30%	3,750,000
VRA 02A	05/15/02	01/01/23	3.75%	2,019,779
Series 02A	09/26/02	07/01/22	3.50%	8,400,000
Series 02B	09/26/02	07/01/16	3.40%	43,905,000
Series 03A	03/01/03	06/01/12	3.60%	4,400,000
Series 03B	06/03/03	11/01/23	3.80%	10,135,000
VRA 03A	06/24/03	06/01/24	3.50%	2,431,353
QZAB 03A	12/31/03	12/28/18	3.50%	1,090,819
QZAB 03B	12/31/03	12/28/18	3.50%	1,351,675
Series 04A	03/01/04	07/15/24	5.00%	18,750,000
Series 04B	03/01/04	01/15/18	4.50%	20,140,000
Series 04C	03/01/04	05/01/20	5.00%	9,955,000
VRA 04A	06/30/04	09/01/25	3.50%	2,443,289
Series 04D	12/01/04	12/01/24	5.00%	21,870,000
Series 05A	02/01/05	01/15/25	4.00%	10,730,000
VRA 05A	08/24/05	09/01/26	3.50%	2,995,322
Series 06A	02/16/06	02/01/26	4.00%	27,425,000
Series 06B	02/16/06	02/01/19	4.00%	24,185,000
VRA 06A	10/20/06	11/01/27	3.10%	2,593,209
Series 07A	04/05/07	03/01/27	4.10%	38,000,000
Series 07B	04/05/07	07/01/22	5.00%	20,215,000
VRA 07A	09/11/07	09/01/28	3.00%	3,001,168
Series 08A	04/09/08	07/28/28	4.00%	33,395,000
VRA 08	12/12/08	09/01/29	3.50%	2,918,835
Series 09A	05/06/09	06/30/30	3.40%	30,000,000
Series 09B	05/06/09	06/30/20	2.20%	16,150,000
VRA 09	12/16/09	09/01/30	3.35%	1,866,487
Totals				$ 383,752,964

Outstanding literary loans at June 30, 2010, 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, 2010
Gildersleeve Middle	03/01/91	03/01/11	3%	100,000
Warwick High	09/01/99	09/01/19	2%	92,000
Menchville High-2	10/01/00	10/01/20	2%	137,500
Denbigh High-2	08/01/01	08/01/21	2%	147,187
Gildersleeve Middle-2	08/15/01	08/15/21	2%	75,000
Dozier Middle	08/15/01	08/15/21	2%	75,000
Reservoir Middle	05/1/02	05/1/22	2%	75,000
Hines Middle	05/1/02	05/1/22	2%	75,000
Huntington Middle-2	09/1/02	09/1/22	2%	88,188
General Stanford	06/30/07	7/15/27	2%	6,372,317
Totals				$ 7,237,192

The following table summarizes future debt service requirements as of June 30, 2010:

	General Obligation Bonds		Literary Loans	
Fiscal year ending June 30:	Principal	Interest	Principal	Interest
2011	$ 33,398,008	16,243,619	$ 519,767	145,744
2012	36,421,683	15,069,813	419,767	134,348
2013	32,579,647	13,618,024	419,767	125,953
2014	33,275,048	12,279,978	419,767	117,558
2015	34,028,972	10,832,937	419,767	109,163
2016 - 2020	119,596,277	34,886,133	2,098,835	419,882
2021 - 2025	72,406,712	13,376,781	1,877,475	215,710
2026 - 2030	21,818,745	2,034,894	1,062,047	42,482
2031	227,872	3,009		
Total future debt service	$ 383,752,964	118,345,188	$ 7,237,192	1,310,840

Business-Type Activities

In 2008 Public Utilities secured $20,000,000 in revenue bonds through the Virginia Resource Authority (VRA) to finance needed property acquisitions in accordance with the King William Reservoir Interim Financing Agreement. Due to reservoir project termination, associated property acquisitions were halted and the $20,000,000 VRA debt liability was paid off in December 2009 using revenue bond proceeds remaining in Debt Service Reserve funds held and Public Utility Operating Cash.

A summary of changes in long-term liabilities for capital-related, business-type activities for the year ended June 30, 2010 follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Due within one year
Bonds payable:					
General obligation bonds	$ 157,720,000	—	10,640,000	147,080,000	12,855,000
Revenue bonds	40,000,000	—	750,000	39,250,000	780,000
Revenue bonds - VRA	20,000,000	—	20,000,000	—	—
Deferred amounts:					
Add bond premiums	8,962,527	—	1,149,145	7,813,382	1,138,842
Total bonds payable	$ 226,682,527	—	32,539,145	194,143,382	14,773,842

Outstanding public utility bonds at June 30, 2010 are comprised of the following issues:

Public Utility Bond Series	Issue Date	Final Maturity Date	Interest Rate (At Issue)	Balance June 30, 2010
2001C	08/15/01	08/15/12	4.3%	4,865,000
2002A	09/26/02	07/01/22	4.3%	6,235,000
2002B	09/26/02	07/01/16	3.8%	7,610,000
2003B	06/03/03	11/01/23	4.1%	3,645,000
2004B	03/01/04	01/15/08	3.6%	13,175,000
2004C	03/01/04	05/01/20	3.9%	19,715,000
2006A	02/15/06	02/01/26	4.3%	12,895,000
2006B	02/15/06	02/01/19	4.3%	7,555,000
2007B	04/05/07	07/01/22	5.1%	17,950,000
2007A-IRB	06/30/07	06/30/37	4.6%	39,250,000
2008B	04/09/08	06/30/28	4.5%	23,585,000
2009B	05/06/09	09/01/29	4.3%	29,850,000
Totals				$ 186,330,000

The following table summarizes future debt service requirements of Business-type Activities as of June 30, 2010.

	Business-type Activities	
Fiscal year ending June 30:	**Principal**	**Interest**
2011	$ 13,635,000	8,194,054
2012	14,285,000	7,665,208
2013	12,155,000	7,152,796
2014	12,700,000	6,657,678
2015	13,285,000	6,113,679
2016-2020	59,560,000	22,068,093
2021-2025	30,865,000	10,771,549
2026-2030	14,735,000	5,402,477
2031-2035	10,285,000	2,696,937
2036-2037	4,825,000	364,750
Totals	$ 186,330,000	77,087,221

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, 2010 follows:

		Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Due within one year
Compensated absences	$	4,014,317	1,890,318	1,914,746	3,989,889	598,483
Workers' compensation claims		1,484,181	728,781	615,110	1,597,852	312,263
Capital leases payable		3,232,136	-	819,313	2,412,823	782,834
Capital facilities notes payable		14,340,476	-	1,930,960	12,409,516	-
Other post employment benefits, restated		26,829,869	7,008,600	5,272,059	28,566,410	-
Incurred but not reported medical claims		2,204,000	26,119,024	25,892,399	2,430,625	2,430,625
Totals	$	52,104,979	35,746,723	36,444,587	51,407,115	4,124,205

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.

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 generally 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 $13.1 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, 2010 are comprised of the following:

Bonds and notes payable	Issue date	Maturity date	Effective interest rates		Balance June 30, 2010
UPS, 04	06/04/04	07/01/15	5.58%	m	$ 4,236,078
Iceland	04/10/97	10/01/17	0.69%	m	4,825,001
Sears	03/01/98	10/01/18	5.40%	mm	7,596,537
VSS	03/01/98	10/01/18	5.40%	mm	6,895,370
Coats and Clark	01/01/99	12/01/18	4.23%		881,642
Hidenwood Center	03/30/00	04/01/20	6.04%		690,948
Downtown Engineering	04/05/00	07/01/31	7.64%		21,080,000
VASCIC	07/27/00	09/30/10	5.50%		5,150,000
Merchant’s Walk Garage	08/24/01	0801/26	0.43%	a	9,500,000
HRSD - BOND A	04/29/03	07/01/08	2.01%		2,190,958
HRSD - BOND B	04/29/03	07/01/08	1.40%		2,325,880
PrintPack	08/15/03	09/01/08	2.85%		2,940,000
City Oper Center Area	12/07/04	07/01/26	2.50%	a	1,830,000
Fountain Way Garage	12/07/04	07/01/31	3.70%	a	14,675,000
Conference Center	12/07/04	07/01/31	3.70%	a	5,345,000
Hotel Promissory Note	12/07/04	07/01/31	3.70%	a	3,450,000
Rouse Project	12/29/05	01/15/31	5.14%	a	15,400,000
Mariner's Row Garage	12/29/05	01/15/31	5.14%	a	13,465,000
$18.9 M Conference Center	06/30/06	07/01/31	4.00%	a	18,900,000
CITI A '07	02/26/07	08/01/22	6.85%		3,114,249
CITI B '07	02/26/07	08/01/22	5.59%		664,711
Oriana Road - Note	07/24/07	07/24/10	7.25%	m	2,000,000
809 Omni Blvd - Note	08/13/07	08/13/12	1.50%	m	2,000,000
Iceland Parking Impr - Note	05/20/08	05/20/08	6.14%		229,677
Totals					149,386,051
Premium on bonds payable					743,016
Discount on bonds payable					(69,860)
Total bonds payable, net					$ 150,059,207

m balance denotes moral obligation of the City
mm balance denotes moral obligation of the City of $2 million
a denotes payment agreement with the City

Conduit Debt Obligations: From time to time the E/IDA has 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 seven series of the Bonds outstanding, with an aggregate principal amount payable of approximately $40 million. Approximately $0.2 million of the Bonds and Notes are considered a moral obligation of the City.

Interest Rate Swap Agreement: As a means to lower its borrowing costs when compared against fixed-rate bonds at the time of issuance, the Authorities have entered into multiple interest rate swaps in connection with various revenue bond issuances. The intention of the swaps was to effectively change the Authorities' variable interest rate on bonds to a synthetic fixed rate.

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

The E/IDA entered into an interest rate swap on April 4, 2004 with the Bank of America, N.A., whereby the E/IDA agreed to pay Bank of America a 5.58% fixed rate of interest on the E/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.

In 2007, the E/IDA entered into two (2) interest rate swaps with the Bank of America, N.A., whereby the E/IDA agreed to pay Bank of America a 6.85% and 5.59% fixed rate of interest on 2007 Series A and B in the amount of $3,604,169 and $781,097 in exchange for the floating rate.

Because interest rates have declined since the execution of the swaps, the swaps had a combined negative fair value of $6,534,499 as of June 30, 2010. If the Series 2000A or 2000B interest swaps were terminated, the Authorities would be required to pay a termination payment in the amount of the fair value of the swap as of the termination date.

The PAC Airport Improvement Revenue Bonds at June 30, 2010, are comprised of the following:

Series	Issue Date	Maturity Date	Eff. Int. Rate (%)	Balance July 1, 2009	Reductions	Balance June 30, 2010	Amt Due in one year
2001	04/15/01	07/16/21	5.05-5.5	$ 5,055,000	275,000	4,780,000	290,000
2002	07/03/02	07/01/27	4.5	2,052,607	75,575	1,977,032	79,609
2005A	12/15/05	01/15/32	4.3	6,587,076	178,101	6,408,975	184,734
2005B	12/15/05	01/15/32	5.8	2,855,857	63,705	2,792,152	66,963
Totals				$ 16,550,540	592,381	15,958,159	621,306

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

	E/IDA		PAC	
	Prinicipal	Interest	Prinicipal	Interest
Fiscal year ending June 30:				
2011	17,983,866	7,838,034	621,306	771,589
2012	8,531,127	7,161,407	657,027	740,119
2013	10,706,294	6,544,143	688,506	709,460
2014	10,475,533	5,972,326	720,781	677,005
2015	8,807,517	5,491,478	758,891	640,083
2016-2020	37,273,942	20,585,834	4,423,340	2,587,357
2021-2025	25,952,772	12,182,544	3,932,654	1,432,871
2026-2030	23,955,000	4,890,500	3,135,659	624,369
2031-2032	5,700,000	299,240	1,019,995	42,199
Total	$ 149,386,051	70,965,506	15,958,159	8,225,052

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(Continued)

(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 (NNSS). 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. The fund has been closed to new hires and rehires for all School Board personnel effective July 1, 2009 and March 1, 2010 for City employees.

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.

Full-time regular employees hired on or before July 1, 2009 and March 1, 2010 for NNSS and the City respectively, are members of this fund. For the year ended June 30, 2010, the total payroll of the City and NNSS was approximately $347.4 million, with approximately $283.1 million covered by NNERF. At June 30, 2010, NNERF membership consisted of:

	Retirees and Beneficiaries	Vested Terminated Employees	Active Employees Vested	Active Employees Non-Vested	Total
City general	986	596	1,068	503	3,153
City police and fire	684	224	620	395	1,923
Public utilities	201	107	244	56	608
School VRS	2,086	957	2,353	866	6,262
School Non-VRS	685	179	660	297	1,821
Total	4,642	2,063	4,945	2,117	13,767

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 compensation for each year of credited service accumulated to February 28, 2010 and 1.85% on and after March 1, 2010. Final average compensation 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.

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 $21.2 million were made by the employer during the year ended June 30, 2010. The percentage of employer contributions to current year covered payroll was 7.5%.

The percentage of normal cost to current year covered payroll was 4.98%. The employer's annual pension cost and net pension obligation to NNERF for 2010 were as follows:

(000's Omitted)

	2010
Annual Required Contribution (ARC)	$ 40,967
Interest on net pension obligation	9,886
Adjustment to ARC	(10,759)
Annual pension cost	40,094
Contributions made	(21,168)
Increase in net pension obligation	18,926
Net pension obligation (asset), beginning of year	127,563
Net pension obligation (asset), end of year	$ 146,489

Schedule of Funding Progress (in millions):

The funded status of the plan as of June 30, 2010 was as follows:

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2010	$ 638	1,110	(472)	57%	283	-166.8%

Schedules of Funding Progress and Employer Contributions are included in the Required Supplemental Information Section.

The annual required contribution for the current year was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses) (b) projected salary increases ranging from 0 – 5% per year and (c) 2.8% per year cost-of-living adjustments, resulting in an average retiree increase of 1.9%. The amortization method used is level dollar open. The assumptions did not include funding of other post-retirement benefit. The actuarial value of assets was determined under the average value method.

4. Three-Year Trend Information

(000's omitted)

Fiscal year ended	Annual Pension Cost (APC)	Percentage of APC contributed	Net pension obligation (asset)
June 30, 2010	$ 40,094	52.8%	$ 146,489
June 30, 2009	39,597	49.9%	127,563
June 30, 2008	41,197	39.9%	107,706

(b) Virginia Retirement System: City of Newport News (City), Newport News School System (NNSS) and Peninsula Airport Commission (PAC)

1. Plan Description

The City, NNSS 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. (As of March 1, 2010, the City closed NNERF to new membership. All full-time employees hired after February 28, 2010 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 50 with 25 years for participating law enforcement officers and firefighters) and at 50 with 30 years of service for participating employees payable monthly for life in an amount equal to 1.70% of their average final compensation (AFC) for each year of credited service (1.85% for sheriffs and other employees in hazardous duty positions receiving enhanced benefits). 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 General Assembly of Virginia.

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 employers. In addition, the City, NNSS 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 2010 were 11.71%, 11.50% and 8.34% of covered annual payroll for the City, NNSS and the PAC, respectively.

3. Annual Pension Cost

For 2010, the annual pension cost of $0.09 million, $18.4 million and $0.2 million for the City, NNSS and the PAC, respectively, was equal to the required and actual contributions.

The City: The City enrollment into VRS has not been included in the actuarial valuation to determine the annual pension cost, the required contribution or the net pension obligation that would be associated for the fiscal year.

NNSS and the PAC: The annual required contributions were determined as part of the June 30, 2010 actuarial valuation. The actuarial assumptions included (a) a rate of return on investment of 7.5% to 8% (b) projected salary increases ranging from 3.50% to 5.6% 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. Schedule of Funding Progress (in thousands):

The funded status of the Peninsula Airport Commission (PAC) Retirement plan as of June 30, 2010 was as follows:

Actuarial valuation date	Actuarial value of assets	Actual accrued liability (AAL)	(unfunded) accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2009	$ 4,410	4,933	(523)	89%	2,095	-25.0%

The City was not part of the valuation for that period and therefore is unable to provide the funded status for the fiscal year ended June 30, 2010.

Schedules of Funding Progress and Employer Contributions are included in the Required Supplemental Information Section.

5. Three-Year Trend Information

	Fiscal year ending		Annual Pension Cost (APC)	Percentage of APC contributed	Net pension obligation
NNSS	06/30/10	$	18,446,055	100.0%	-
	06/30/09		22,520,695	100.0%	-
	06/30/08		24,529,972	100.0%	-
PAC	06/30/10		185,696	100.0%	-
	06/30/09		177,407	100.0%	-
	06/30/08		140,094	100.0%	-

The City was enrolled in the VRS plan effective March 1, 2010 and therefore is unable to provide the above trend information.

(9) Other Post Employment Benefits (OPEB) Trust Funds

(a) City of Newport News

1. Plan Description

The OPEB Trust Fund is a single employer plan administered by the City to provide health, dental and life insurance benefits for City retirees. The Fund was originally established to provide health, dental and life insurance benefits for City and School retirees. Effective July 1, 2009, NNSS separated from the City's OPEB Fund. Based on the July 1, 2009 actuarial report, the City transferred $1.6 million to NNPS for their share of the City's OPEB Trust Fund. Effective July 1, 2009 and March 1, 2010, the OPEB Trust Fund is closed to new hires and rehires of NNSS and City respectively.

As of June 30, 2010, the Fund was valued at $12.5 million. 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.

For reporting purposes, the assets, income and expenses of the OPEB fund were included with the Pension Fund from FY 2000 – 2007. However, the calculation of the net pension obligation for pension excluded OPEB contributions.

The City offers health and dental coverage to eligible retirees and their eligible dependents. Effective July 1, 2005, the City's medical contribution amount was capped and is annually indexed by the CPI. For those employees who were not eligible to retire before July 1, 2005, medical premiums are paid according to years of service. Employees must have at least 11 years of service to receive a premium contribution. Those having 25 years or more will receive the maximum contribution. At age 65, the retiree's coverage converts to Medicare Extended. The life insurance benefit is 50% of salary for City participants who are retired or are eligible to retire before July 1, 2005. For those participants not eligible to retire before July 1, 2005, the life insurance benefit is 50% of salary, reduced 20% per year after retirement but not below $10,000. Life insurance is provided at no cost to retirees. The employer's cost is paid out of the OPEB Fund. Approximately

422 NNSS retirees participate in the OPEB Fund's sponsored life insurance coverage. These retirees have elected coverage under the OPEB fund. NNSS reimburses the OPEB Fund for the premium cost.

Benefit provisions are established and amended through City Council.

The OPEB Fund is a separate pension trust fund and is considered part of the City's financial reporting entity. The NNERF issues a publicly available financial report that includes financial statements and required information for the OPEB Fund. That report may be obtained by writing to NNERF, 2400 Washington Avenue, Newport News, VA 23607.

2. Contribution Required and Contributions Made

OPEB funding policy provides for periodic employer contributions at actuarially determined rates, that, expresses as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. A level percentage of payroll amount, with a 30 year amortization period is used for purposes of computing the minimum accrual under GASB 45. The projected unit credit method is used for cost calculations.

Contributions to normal costs totaling $12.1 million were made during the year ended June 30, 2010. The City's annual OPEB cost for the current year and the related information for each plan are as follows:

(in millions)		**City***
Actuarial Required Contribution (ARC)	$	13.4
Actual Contribution		(12.1)
Increase in net pension obligation		1.3
Net pension obligation (asset), beginning of year		8.1
Net OPEB obligation	$	9.4

*Effective July 1, 2009, NNPS separated from the City's OPEB Fund and is not included in this table.

The percentages of annual OPEB cost contributed to the plan for the City was 90.46%.

Funded Status and Funding Progress

The funded status of the plans as of June 30, 2010 was as follows:

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(in millions)		**City**
Actuarial value of assets	$	6.50
Actuarial Accrued Liability (AAL)		215.40
Unfunded AAL (UAAL)	$	208.90

		City
Funded ratio		3.0%
Covered Payroll	$	135.8
UAAL as a percentage of covered payroll		154.0%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions. Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the city and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial valuation date	6/30/10
Actuarial cost method	Projected Unit Credit Method
Amortization method	Level percentage of payroll
Amortization period	30 years
Asset valuation method	3-year smoothed market
Actuarial assumptions:	
Investment rate of return	4%
Projected salary increases	3%
Healthcare inflation rate	2.0% and beyond

(b) Newport News Schools System (NNSS)

1. Plan Description

In FY 2000, an OPEB fund was established to accumulate assets to pay for other post employment benefits. The fund is administered by the City to provide health, dental and life insurance benefits for City and School Board retirees. During FY 2010, the School Board established a separate Trust

Fund apart from the City and all assets belonging to the School Board were transferred to this new fund. Benefits and contribution provisions are established by the School Board and may be amended only by the School Board. An actuarial service is employed to advise the School Board of the contributions necessary to fund the benefits.

The School Board provides health and dental insurance for their retirees under the school's group plans. The School Board annually determines the retiree's contribution to participate in the medical plans. The total contribution is based on the active premium rates. The retiree's portion of the active rate is based on the retiree's accumulated sick leave at retirement. Retirees with maximum accumulated sick leave will pay what an active employee would pay. Retirees with minimal accumulations would pay most of the total active premium rate.

Approximately 422 School Board retirees participate in the City OPEB Fund's sponsored life insurance coverage. These retirees have elected supplemental coverage under the City OPEB fund.

Contribution Required and Contributions Made

OPEB 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. A level percentage of payroll amount, with a 30 year amortization period is used for purposes of computing the minimum accrual under GASB 45. The projected unit credit method is used for cost calculations.

Contributions to normal costs totaling $5.3 million were made during the year ended June 30, 2010. The annual required contribution (ARC) was $7.0 million with a net OPEB obligation of $28.5 Contributions made were $3,212,348 in FY 2009 and were $3,051,679 in FY 2008.

The percentage of annual OPEB cost contributed to the plan by the School Board was 21.53%.

Funded Status and Funding Progress

The funded status of the plans as of June 30, 2010 was as follows:

(in millions)	**School Board**
Actuarial value of assets	$ 3.2
Actuarial Accrued Liability (AAL)	132.7
Unfunded AAL (UAAL)	$ 129.5

	School Board
Funded ratio	2.4%
Covered Payroll	$ 181.0
UAAL as a percentage of covered payroll	71.5%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions. Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the School Board and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial valuation date	6/30/09
Actuarial cost method	Projected Unit Credit Method
Amortization method	Level percentage of payroll
Amortization period	30 years - Open
Asset valuation method	3-year smoothed market
Actuarial assumptions:	
Investment rate of return	4%
Projected salary increases	3%
Healthcare inflation rate	9.5% initially, reduced to 5% for each year following 2016

(10) Deferred Compensation Plans

(a) 457 Deferred Compensation Plan

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.

(b) Health Reimbursement Arrangement (HRA)

Effective March 1, 2010, all full-time employees of the City, except those of the School System, are automatically enrolled in the HRA Plan adopted under the provision of the IRS Notice 2002-45 and Revenue Ruling 2002-41. Under the plan, the City contributes 3% of the average wage rate paid to all employees. For FY 2010, based on an average City salary of $42,830, the City is contributing $1,285 per participant. At year ending June 30, 2010, the City contributed a total of $19,000 to the HRA accounts. The accumulated amounts are available to participants at retirement or age 55 if terminated prior to reaching retirement eligibility. The Plan reimburses the participant, the participant's spouse, and dependents for insurance premiums or other medical payments expended for permissible benefits described under the plan. HRA participants cannot be members of the City's OPEB Fund.

The HRA is administered by an unrelated financial institution. Investments options are available to employees.

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(11) Self Insurance

(a) Medical Benefits

The School Board is self-insured for medical benefits through the respective General Funds for employees up to $175,000, per employee per year, and 110% of adjusted subscriber charges for the year ($29.8 million for 2010). 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 $37.4 million), 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 2010 or 2009. 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, 2010 are recognized as a long-term liability in the statement of net assets.

Changes in the medical incurred but not reported amount during the fiscal years ended June 30, 2009 and 2010 for the City and the Public Schools were as follows:

	City		Public Schools	
	2010	**2009**	**2010**	**2009**
Claims payable at beginning of year	$ 2,207,602	2,912,562.00	2,204,000	2,199,000
Claims and changes in estimates	32,022,120	32,624,716	26,119,024	24,382,548
Claim payments	(31,307,610)	(33,329,676)	(25,892,399)	(24,377,548)
Claims payable at end of year	$ 2,922,112	2,207,602	2,430,625	2,204,000

(b) Workers' Compensation

The City self-insures for workers' compensation through the General Fund up to $1,750,000 per claim. The School Board has discontinued excess insurance coverage, effective July 1, 2006. 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, 2010 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, 2009 and 2010 for the City and the Public Schools.

	City		Public Schools	
	2010	**2009**	**2010**	**2009**
Claims payable at beginning of year	$ 12,453,477	12,903,599	1,484,181	1,440,488
Claims and changes in estimates	2,235,067	2,527,121	728,781	889,768
Claim payments	(2,618,219)	(2,977,243)	(615,110)	(846,075)
Claims payable at end of year	$ 12,070,325	12,453,477	1,597,852	1,484,181

A loss analysis was conducted by Oliver Wyman on this fund. The total actuarially computed liability as of June 30, 2010 for the City and School Board was determined to be approximately $12.1 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 $500,000 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	
Auto & General Liability	**2010**	**2009**
Claims payable at beginning of year	$ 3,396,057	2,153,728
Claims and changes in estimates	3,927,679	2,064,777
Claim payments	(1,486,614)	(822,448)
Claims payable at end of year	$ 5,837,122	3,396,057

The auto and general liability claims increased from $3.4 million to $5.8 million due to three late-reported general liability claims for Hurricane Floyd damage. At year ending June 30, 2010, all three claims were open, with $0 paid, and $1.0 million of retained case reserve each.

(12) 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, 2010, will not be material to the financial statements.

(13) 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.

(Continued)

(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 funding or has responsibility over its operations. 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 that 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 contributed $170,195 in FY 10. Separate financial statements are available from the HREDA, 500 E. Main Street, Suite 1300, Norfolk, Virginia 23510.

(14) Extraordinary Item

As mentioned earlier, in October 2009, City Council adopted a resolution terminating the King William Reservoir Project (the project). As a result of this termination, Construction In Progress expenditures of $52.6 million were written-off and recorded as an extraordinary loss.

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CITY OF NEWPORT NEWS, VIRGINIA

Required Supplementary Information

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual (Budget Basis)

Year ended June 30, 2010

	Original budget	Amended budget	Actual	Variance
Revenues:				
Revenues from local sources:				
General property taxes:				
Real property taxes	$ 168,379,883	168,379,883	168,565,813	185,930
Real and personal public service corporation property taxes	4,705,173	4,705,173	5,571,913	866,740
Personal property taxes	42,218,222	42,218,222	45,431,368	3,213,146
Machinery and tools taxes	13,541,334	13,541,334	15,582,812	2,041,478
Penalties and interest	1,080,000	1,080,000	1,032,072	(47,928)
Total general property taxes	229,924,612	229,924,612	236,183,978	6,259,366
Other local taxes:				
E-911 service revenue	674,008	674,008	737,734	63,726
Telecom sales taxes	11,627,014	11,627,014	12,018,133	391,119
Local sales and use taxes	21,002,000	21,002,000	20,862,730	(139,270)
Consumers' utility taxes	6,261,648	6,261,648	6,321,381	59,733
Consumption tax	720,000	720,000	776,672	56,672
Business license taxes	13,694,706	13,694,706	15,266,938	1,572,232
Rental car taxes	957,928	957,928	1,021,610	63,682
Motor vehicle license	3,500,000	3,500,000	3,922,803	422,803
Bank stock taxes	529,994	529,994	1,015,597	485,603
Taxes on recordation and wills	1,000,000	1,000,000	1,263,938	263,938
Tobacco taxes	4,225,000	4,225,000	4,160,343	(64,657)
Hotel and motel room taxes	3,052,264	3,052,264	2,969,053	(83,211)
Restaurant food taxes	17,800,000	17,800,000	17,765,937	(34,063)
Amusement taxes	560,916	560,916	493,079	(67,837)
Total other local taxes	85,605,478	85,605,478	88,595,948	2,990,470
Permits, privilege fees, and regulatory licenses:				
Animal licenses	40,000	40,000	58,574	18,574
Permits and other licenses	2,940,721	2,940,721	2,787,767	(152,954)
Total permits, privilege fees, and regulatory licenses	2,980,721	2,980,721	2,846,341	(134,380)
Fines and forfeitures	1,843,763	1,843,763	2,213,372	369,609
Revenue from use of money and property:				
Revenue from use of money	2,336,000	2,336,000	652,387	(1,683,613)
Revenue from use of property	1,774,530	1,774,530	1,710,065	(64,465)
Total revenue from use of money and property	4,110,530	4,110,530	2,362,452	(1,748,078)
Charges for services:				
Court costs	1,518,097	1,518,097	1,142,366	(375,731)
Law enforcement and traffic control	122,000	122,000	56,528	(65,472)
Fire and rescue services	2,450,000	2,450,000	3,665,647	1,215,647
Information Technology	1,319,504	1,319,504	1,267,451	(52,053)
Parks and recreation	7,224,510	7,224,510	6,443,890	(780,620)
Cultural enrichment	166,809	166,809	157,640	(9,169)
Self-insurance premiums	1,977,709	1,977,709	2,096,248	118,539
Library	65,000	65,000	71,759	6,759
Planning and community development	10,000	10,000	16,592	6,592
Indirect costs	2,160,315	2,160,315	2,130,308	(30,007)
Animal services	57,478	57,478	45,092	(12,386)
Applied research center	553,758	553,758	553,758	-
Total charges for services	$ 17,625,180	17,625,180	17,647,279	22,099

CITY OF NEWPORT NEWS, VIRGINIA
Required Supplementary Information
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budget Basis)
Year ended June 30, 2010

	Original budget	Amended budget	Actual	Variance
Recovered costs:				
Health department	$ 48,152	48,152	37,568	(10,584)
Juvenile detention home	4,342,158	4,342,158	3,539,120	(803,038)
City farm	1,073,690	1,073,690	785,272	(288,418)
City jail	1,746,851	1,746,851	1,436,417	(310,434)
Sewer assessments - debt service	18,000	18,000	15,283	(2,717)
Total recovered costs	7,228,851	7,228,851	5,813,660	(1,415,191)
Miscellaneous revenue:				
Payments in lieu of taxes	2,728,745	2,728,745	2,721,502	(7,243)
Miscellaneous	879,080	879,080	603,279	(275,801)
Total miscellaneous revenue	3,607,825	3,607,825	3,324,781	(283,044)
Total revenue from local sources	352,926,960	352,926,960	358,987,811	6,060,851
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' taxes	45,289	45,289	54,097	8,808
Mobile home titling taxes	-	-	68,328	68,328
Tax on deeds	248,000	248,000	280,201	32,201
State rebate – recording tax	-	-	504,179	504,179
DCJP grants for law enforcement	10,003,030	10,003,030	8,739,871	(1,263,159)
Total noncategorical aid	10,296,319	10,296,319	9,646,676	(649,643)
Shared expenses:				
Technology trust fund	100,000	132,555	132,555	-
Commonwealth's attorney	1,787,120	1,787,120	1,529,776	(257,344)
Sheriff	7,633,845	7,633,845	6,622,930	(1,010,915)
Commissioner of the revenue	439,105	439,105	357,908	(81,197)
Treasurer	422,890	422,890	345,799	(77,091)
Registrar/electoral board	81,037	81,037	63,992	(17,045)
Total shared expenses	10,463,997	10,496,552	9,052,960	(1,443,592)
Categorical aid:				
Emergency services grant	52,408	52,408	52,408	-
Welfare	32,292,039	32,292,039	29,455,104	(2,836,935)
Emergency medical service funds	125,000	125,000	-	(125,000)
Library	197,986	197,986	184,146	(13,840)
Other	-	-	238,892	238,892
Total categorical state aid	32,667,433	32,667,433	29,930,550	(2,736,883)
Total revenue from the Commonwealth	53,427,749	53,460,304	48,630,186	(4,830,118)
Other financing sources:				
Transfers from other funds	10,000,000	10,812,780	10,000,000	(812,780)
Total revenue	$ 416,354,709	417,200,044	417,617,997	417,953

CITY OF NEWPORT NEWS, VIRGINIA
Required Supplementary Information
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budget Basis)
Year ended June 30, 2010

	Original budget	Amended budget	Actual	Variance
Expenditures:				
General government administration:				
Legislative:				
City Council	$ 327,163	327,163	292,471	34,692
City Clerk	365,804	365,804	364,623	1,181
Total legislative	692,967	692,967	657,094	35,873
General and financial administration:				
City manager	1,654,761	1,654,761	1,535,440	119,321
Human Resources	1,321,461	1,321,461	1,254,043	67,418
Medical services	63,067	63,067	62,705	362
City attorney	1,706,713	1,706,713	1,717,273	(10,560)
Video production service	480,972	480,972	465,342	15,630
Internal auditor	515,662	515,662	494,652	21,010
Commissioner of the Revenue	2,795,316	2,795,316	2,637,281	158,035
Real estate assessor	1,828,711	1,828,711	1,500,460	328,251
City treasurer	2,150,949	2,150,949	2,030,598	120,351
Finance	1,218,723	1,218,723	1,124,872	93,851
Budget and evaluation	652,250	652,250	523,764	128,486
Auto self-insurance	1,410,500	1,410,500	1,565,198	(154,698)
General liability self-insurance	1,240,800	1,240,800	1,314,161	(73,361)
Workers’ compensation	3,386,000	3,386,000	2,977,400	408,600
Purchasing	1,390,324	1,390,324	1,074,507	315,817
Information technology	9,020,698	9,020,698	8,601,555	419,143
Total general and financial administration	30,836,907	30,836,907	28,879,251	1,957,656
Board of elections -				
Registrar	481,863	481,863	468,873	12,990
Nondepartmental:				
Appointed boards	132,984	132,984	85,054	47,930
Community support	2,378,396	2,378,396	2,205,504	172,892
Contract community agencies	5,281,037	5,281,037	5,266,036	15,001
City development	351,765	351,765	928,477	(576,712)
Contractual services	1,002,457	1,002,457	1,075,169	(72,712)
Internal services	117,000	117,000	2,230	114,770
Machinery and equipment	571,000	571,000	515,285	55,715
Street lighting	990,012	990,012	135,314	854,698
Other	3,143,233	3,143,233	8,998,778	(5,855,545)
Total nondepartmental	13,967,884	13,967,884	19,211,847	(5,243,963)
Total general government administration	45,979,621	45,979,621	49,217,065	(3,237,444)
Judicial administration:				
Courts:				
Circuit courts	452,962	452,962	443,073	9,889
District courts	296,636	296,636	182,326	114,310
Office of the Magistrate	254,561	254,561	237,863	16,698
Juvenile/domestic relations court	64,791	64,791	47,617	17,174
Clerk of the circuit court	1,540,724	1,573,279	1,453,000	120,279
Court services	480,140	480,140	423,336	56,804
Total courts	3,089,814	3,122,369	2,787,215	335,154
Commonwealth’s attorney	3,650,536	3,650,536	3,462,226	188,310
Total judicial administration	$ 6,740,350	6,772,905	6,249,441	523,464

CITY OF NEWPORT NEWS, VIRGINIA
Required Supplementary Information
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budget Basis)
Year ended June 30, 2010

	Original budget	Amended budget	Actual	Variance
Public safety:				
Law enforcement and traffic control:				
Police department	$ 44,448,765	44,448,765	42,338,762	2,110,003
Emergency communications	441,569	441,569	330,330	111,239
Total law enforcement and traffic control	44,890,334	44,890,334	42,669,092	2,221,242
Fire and rescue services:				
Fire department	28,128,600	28,128,600	27,626,370	502,230
Ambulance and rescue service	1,818,394	1,818,394	1,750,480	67,914
Total fire and rescue services	29,946,994	29,946,994	29,376,850	570,144
Correction and detention:				
Sheriff	18,399,466	18,399,466	17,637,737	761,729
Adult corrections	4,535,924	4,535,924	4,364,828	171,096
Juvenile detention	7,868,994	7,868,994	7,564,166	304,828
Total correction and detention	30,804,384	30,804,384	29,566,731	1,237,653
Inspection – codes compliance	2,785,607	2,785,607	2,717,427	68,180
Total public safety	108,427,319	108,427,319	104,330,100	4,097,219
Public works:				
Engineering:				
Administration	711,795	711,795	674,599	37,196
Civil services	1,191,132	1,191,132	994,475	196,657
Facilities engineering	945,283	945,283	866,761	78,522
Technical support	766,849	766,849	832,151	(65,302)
Site & subdivision services	289,716	289,716	267,056	22,660
Operation engineering	124,437	124,437	124,022	415
Environmental serices	154,434	154,434	141,020	13,414
Transportaion services	1,925,136	1,925,136	1,407,727	517,409
Total engineering	6,108,782	6,108,782	5,307,811	800,971
Public works administration	954,026	954,026	248,359	705,667
Maintenance of highways, streets, bridges, and sidewalks	500,546	500,546	1,780,414	(1,279,868)
Maintenance of general buildings and grounds	9,590,433	9,590,433	8,396,466	1,193,967
Total public works	17,153,787	17,153,787	15,733,050	1,420,737
Health and welfare:				
Health -				
Medical services	3,681,007	3,681,007	3,587,345	93,662
Welfare:				
Social services administration	8,880,504	8,880,504	7,614,929	1,265,575
Financial services	7,603,311	7,603,311	5,757,145	1,846,166
Social work services	22,129,059	22,129,059	20,744,637	1,384,422
Healthy families	776,478	776,478	755,745	20,733
Employment service program	2,188,876	2,188,876	1,996,872	192,004
CSA administration	356,972	356,972	254,066	102,906
Fuel assistance	35,750	35,750	33,185	2,565
Cooperative extension	248,824	248,824	206,446	42,378
Total welfare	42,219,774	42,219,774	37,363,025	4,856,749
Total health and welfare	$ 45,900,781	45,900,781	40,950,370	4,950,411

CITY OF NEWPORT NEWS, VIRGINIA
Required Supplementary Information
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budget Basis)
Year ended June 30, 2010

	Original budget	Amended budget	Actual	Variance
Parks, recreation and cultural:				
Parks and recreation:				
Administration	$ 5,629,646	5,629,646	5,220,603	409,043
Recreation division	2,880,481	2,880,481	2,451,465	429,016
Parks division	3,619,392	3,619,392	3,631,845	(12,453)
Recreation classes	4,758,282	4,758,282	4,045,018	713,264
Golf course	1,688,500	1,688,500	1,595,637	92,863
Leeward Marina	213,000	213,000	355,930	(142,930)
Festival support	243,123	243,123	265,609	(22,486)
Tourism, promotion and development	1,370,800	1,370,800	1,378,547	(7,747)
Animal services	1,045,356	1,045,356	999,474	45,882
Total parks and recreation	21,448,580	21,448,580	19,944,128	1,504,452
Cultural enrichment – Museum	1,238,000	1,238,000	1,025,834	212,166
Library	5,056,619	5,056,619	4,841,460	215,159
Total parks, recreation and cultural	27,743,199	27,743,199	25,811,422	1,931,777
Community development -				
Planning and community development:				
Development	1,198,648	1,198,648	1,165,397	33,251
Planning	1,184,993	1,184,993	1,127,269	57,724
Economic development	2,952,714	2,952,714	2,949,793	2,921
Total community development	5,336,355	5,336,355	5,242,459	93,896
Education – transfer to Public Schools	114,200,000	114,200,000	114,200,000	-
Transfers to other funds:				
Debt service	36,648,002	36,648,002	41,163,001	(4,514,999)
Capital projects	3,675,000	4,487,780	6,837,780	(2,350,000)
Other	4,550,295	4,550,295	4,720,295	(170,000)
Total transfers to other funds	44,873,297	45,686,077	52,721,076	(7,034,999)
Total expenditures and transfers to other funds	$ 416,354,709	417,200,044	414,454,983	2,745,061
Excess (deficiency) of revenues over (under) expenditures	-	-	3,163,014	3,163,014
Less encumbrances outstanding at June 30, 2009 expended or canceled at June 30, 2010			(4,262,995)	
Add encumbrances outstanding at June 30, 2010			5,413,927	
FY 2010 (deficit)/surplus			4,313,946	
Fund balance at beginning of year			99,358,688	
Fund balance at end of year			$ 103,672,634	

See accompanying notes to required supplementary information

CITY OF NEWPORT NEWS, VIRGINIA
Required Supplementary Information
Schedule of Funding Progress (unaudited)
Year ended June 30, 2010

Newport News Employee Retirement Fund (in millions):

Actuarial valuation date		Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio		Covered payroll	UAAL as a percentage of covered payroll
June 30, 2010	$	638	1,110	(472)	57%	$	283	-166.8%
June 30, 2009		711	1,115	(404)	64%		314	-128.7%
June 30, 2008		772	1,030	(258)	75%		314	-82.2%
June 30, 2007		746	954	(208)	78%		305	-68.2%
June 30, 2006		682	894	(212)	76%		298	-71.1%

***Newport News Employees' OPEB Fund (in millions):**

Actuarial valuation date			Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio		Covered payroll	UAAL as a percentage of covered payroll
June 30, 2010	City	$	6	215	(209)	3%	$	136	-153.7%
June 30, 2009	City	$	9	194	(185)	5%	$	133	-139.1%
June 30, 2009	NNSS		3	180	(177)	2%		184	-96.2%
	Total		12	374	(362)	3%		317	-114.2%
June 30, 2008	City	$	13	181	(168)	7%	$	133	-126.3%
June 30, 2008	NNSS		3	194	(191)	2%		180	-106.1%
	Total		16	375	(359)	4%		313	-114.7%

Peninsula Airport Commission (PAC) Retirement (in thousands):

Actuarial valuation date		Actuarial value of assets	Actual accrued liability (AAL)	Overfunded accrued liability (UAAL)	Funded ratio		Covered payroll	UAAL as a percentage of covered payroll
June 30, 2009	$	4,410	4,933	(523)	89%	$	2,095	-25.0%
June 30, 2008		4,126	4,663	(537)	88%		2,022	-26.6%
June 30, 2007		3,721	4,260	(539)	87%		2,112	-25.5%

Peninsula Airport Commission (PAC) OPEB Fund (in thousands):

Actuarial valuation date		Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio		Covered payroll	UAAL as a percentage of covered payroll
July 1, 2007	$	-	4,155,776	(4,155,776)	0%	$	2,112,183	-196.8%

***Newport News School System (NNSS) OPEB Fund (in millions):**

Actuarial valuation date		Actuarial value of assets	Actual accrued liability (AAL)	Overfunded (unfunded) accrued liability (UAAL)	Funded ratio		Covered payroll	UAAL as a percentage of covered payroll
06/30/2010	$	3	133	(130)	2%	$	181	-71.8%

*Beginning 7/01/2009, NNSS OPEB Fund separated from the City.

CITY OF NEWPORT NEWS, VIRGINIA
Required Supplementary Information
Employees' Retirement Fund
Schedule of Employer Contributions (Unaudited)
(in millions)
Year ended June 30, 2010

Newport News Employees' Retirement Fund (in millions):

Fiscal year end	Annual required contribution	Actual contribution	Percentage contributed
2010	$ 41.0	$ 21.2	52%
2009	40.5	19.7	49%
2008 **	38.0	16.4	43%
2007	51.1	23.3	46%
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%

Newport News Employees' OPEB Fund (in millions):

Fiscal year end		Annual required contribution	Actual contribution	Percentage contributed
2010	City	$ 13.4	$ 12.1	90%
	Total	$ 13.4	$ 12.1	90%
2009	City	$ 12.5	$ 9.2	74%
	NNSS	14.9	3.2	21%
	Total	$ 27.4	$ 12.4	45%
2008 **	City	$ 11.7	$ 6.9	59%
	NNSS	18.2	3.1	17%
	Total	$ 29.9	$ 10.0	33%

** Beginning June 30, 2008, pension and OPEB disclosures are reported separately.

See accompanying notes to required supplementary information.

(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 2010 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; the following Special Revenue Funds: Street Maintenance, Economic Development, Law Library, Stormwater, Solid Waste, and Wastewater. 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, except those funds identified above. 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.

(Continued)

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.

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CITY OF NEWPORT NEWS, VIRGINIA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010

		Special Revenue						
Assets		**Community development**	**Street maintenance**	**Economic development**	**Law library**	**Stormwater**	**Solid waste**	**Wastewater**
Cash and cash equivalents	$	37,445	-	1,507,294	131,044	4,639,574	1,628,807	3,890,587
Accounts receivable, net		-	-	-	15,800	238,425	1,262,162	985,280
Receivable from other governments:								
State		62,857	-	-	-		-	-
Federal		-	-	-	-		-	-
Advances to other funds		-	-	-	-	-	-	-
Total assets	$	100,302	-	1,507,294	146,844	4,877,999	2,890,969	4,875,867
Liabilities and Fund Balances								
Liabilities:								
Accounts payable	$	100,302	-	11,229	5,556	63,729	408,711	1,312,052
Accrued liabilities		-	-	-	-	52,585	20,097	35,347
Deferred revenue		-	-	-	-	190,062	17,667	-
Advances from other funds		-	-	-	-	-	-	-
Advances from major governmental funds		-	-	-	-	-	-	-
Total liabilities		100,302	-	11,229	5,556	306,376	446,475	1,347,399
Fund balances:								
Reserved for encumbrances		-	-	1,001	539	126,488	34,543	1,613,814
Unreserved:								
Designated:								
Imprest funds		-	-	-	25	-	-	-
Capital improvements		-	-	-	-	-	-	-
Specific projects		-	-	-	-	614,626	900,783	1,868,030
Undesignated		-	-	1,495,064	140,724	3,830,509	1,509,168	46,624
Total fund balances		-	-	1,496,065	141,288	4,571,623	2,444,494	3,528,468
Total liabilities and fund balances	$	100,302	-	1,507,294	146,844	4,877,999	2,890,969	4,875,867

(continued)

CITY OF NEWPORT NEWS, VIRGINIA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010

		Special Revenue		Capital Projects		
Assets		**Comprehensive Services Act**	**Other federal and state**	**General capital improvements**	**Other federal and state**	**Total nonmajor**
Cash and cash equivalents	$	3,161,168	1,034,412	13,422,541	-	29,452,872
Accounts receivable, net		-	-	-	-	2,501,667
Receivable from other governments:						
State		436,686	82,483	38,849	1,064,735	1,685,610
Federal		-	1,536,584	-	562,789	2,099,373
Advances to other funds		-	-	1,123,042	-	1,123,042
Total assets	$	3,597,854	2,653,479	14,584,432	1,627,524	36,862,564
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	$	998,865	118,647	100,516	-	3,119,607
Accrued liabilities		-	21,748	-	65,064	194,841
Deferred revenue		-	-	-	-	207,729
Advances from other funds		-	-	-	-	-
Advances from major governmental funds		-	-	-	1,123,042	1,123,042
Total liabilities	$	998,865	140,395	100,516	1,188,106	4,645,219
Fund balances:						
Reserved for encumbrances		-	3,144,764	1,633,036	-	6,554,185
Unreserved:						
Designated:						
Imprest funds		-	-	-	-	25
Capital improvements		-	-	4,720,120	-	4,720,120
Specific projects		-	(631,680)	7,724,627	-	10,476,386
Undesignated		2,598,989	-	406,133	439,418	10,466,629
Total fund balances	$	2,598,989	2,513,084	14,483,916	439,418	32,217,345
Total liabilities and fund balances	$	3,597,854	2,653,479	14,584,432	1,627,524	36,862,564

CITY OF NEWPORT NEWS, VIRGINIA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

Year ended June 30, 2010

		Special Revenue						
		Community development	**Street maintenance**	**Economic development**	**Law library**	**Stormwater**	**Solid waste**	**Wastewater**
Revenues:								
Intergovernmental:								
State	$	-	13,573,703	-	-	-	20,689	-
Federal		3,554,804	-	-	-	-	-	-
Charges for services		-	-	-	146,714	9,473,644	11,545,431	16,710,123
Interest and rents		-	-	124,060	-	31,011	71,120	20,094
Sale of property		-	-	-	-	-	-	-
Miscellaneous		-	-	9	-	-	-	-
Total revenues	$	3,554,804	13,573,703	124,069	146,714	9,504,655	11,637,240	16,730,217
Expenditures:								
Current operating:								
General government		-	-	-	127,183	-	-	-
Public safety		-	-	-	-	-	-	-
Public works		-	13,573,703	-	-	7,373,687	10,673,871	13,477,477
Health and welfare		-	-	-	-	-	-	-
Parks, recreation, and culture		-	-	-	-	-	-	-
Community development		3,554,804	-	173,349	-	-	-	-
Capital outlay		-	-	-	-	-	-	-
Total expenditures	$	3,554,804	13,573,703	173,349	127,183	7,373,687	10,673,871	13,477,477
Excess (deficiency) of revenues over (under) expenditures		-	-	(49,280)	19,531	2,130,968	963,369	3,252,740
Other financing sources (uses):								
Transfers in		-	-	-	-	-	-	-
Transfers out		-	-	-	-	(1,848,593)	(1,121,851)	(3,895,360)
Total other financing sources (uses)	$	-	-	-	-	(1,848,593)	(1,121,851)	(3,895,360)
Net changes in fund balances		-	-	(49,280)	19,531	282,375	(158,482)	(642,620)
Fund balances at June 30, 2009		-	-	1,545,345	121,757	4,289,248	2,602,976	4,171,088
Fund balances at June 30, 2010	$	-	-	1,496,065	141,288	4,571,623	2,444,494	3,528,468

(continued)

CITY OF NEWPORT NEWS, VIRGINIA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended June 30, 2010

	Special Revenue		Capital Projects		
	Comprehensive Services Act	**Other federal and state**	**General capital improvements**	**Other federal and state**	**Total nonmajor**
Revenues:					
Intergovernmental:					
Local	$ -	348,943	170,118	-	519,061
State	4,466,782	1,548,442	-	274,902	19,884,518
Federal	-	4,274,701	254,479	848,670	8,932,654
Charges for services	-	-	-	-	37,875,912
Interest and rents	-	3,054	41,139	-	290,478
Sale of Property	-	-	-	-	-
Miscellaneous	-	-	-	-	9
Total revenues	4,466,782	6,175,140	465,736	1,123,572	67,502,632
Expenditures:					
Current operating:					
General government	-	-	-	-	127,183
Public safety	-	4,679,253	-	-	4,679,253
Public works	-	816,062	-	-	45,914,800
Health and welfare	8,169,660	163,307	-	-	8,332,967
Parks, recreation, and culture	-	210,643	-	-	210,643
Community development	-	-	-	-	3,728,153
Capital outlay	-	-	6,632,578	1,132,948	7,765,526
Total expenditures	8,169,660	5,869,265	6,632,578	1,132,948	70,758,525
Excess (deficiency) of revenues over (under) expenditures	(3,702,878)	305,875	(6,166,842)	(9,376)	(3,255,893)
Other financing sources (uses):					
Transfers in	3,702,878	-	7,855,197	-	11,558,075
Transfers out	-	-	-	-	(6,865,804)
Total other financing sources (uses)	3,702,878	-	7,855,197	-	4,692,271
Net changes in fund balances	-	305,875	1,688,355	(9,376)	1,436,378
Fund balances at June 30, 2009	2,598,989	2,207,209	12,795,561	448,794	30,780,967
Fund balances at June 30, 2010	$ 2,598,989	2,513,084	14,483,916	439,418	32,217,345

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, 2010

	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:																
State	13,662,209	13,662,209	13,573,703	(88,506)	–	–	–	–	–	–	–	–	–	–	–	–
Charges for services	–	–	–	–	–	–	–	–	142,800	142,800	146,714	3,914	10,511,965	10,511,965	9,473,644	(1,038,321)
Sale of property	–	–	–	–	65,500	65,500	–	(65,500)	–	–	–	–	–	–	–	–
Interest and rents	–	–	–	–	136,355	136,355	124,060	(12,295)	–	–	–	–	65,159	65,159	31,011	(34,148)
Miscellaneous	–	–	–	–	345	345	9	(336)	–	–	–	–	–	–	–	–
Total revenues	$ 13,662,209	13,662,209	13,573,703	(88,506)	202,200	202,200	124,069	(78,131)	142,800	142,800	146,714	3,914	10,577,124	10,577,124	9,504,655	(1,072,469)
Expenditures:																
Current:																
General government	–	–	–	–	–	–	–	–	142,800	142,800	127,183	15,617	–	–	–	–
Public works	13,662,209	13,662,209	13,573,703	88,506	–	–	–	–	–	–	–	–	10,577,124	10,598,744	9,222,280	1,376,464
Community development	–	–	–	–	202,200	202,200	173,349	28,851	–	–	–	–	–	–	–	–
Total expenditures	$ 13,662,209	13,662,209	13,573,703	88,506	202,200	202,200	173,349	28,851	142,800	142,800	127,183	15,617	10,577,124	10,598,744	9,222,280	1,376,464
Excess (deficiency) of revenues over expenditures	$ –	–	–	–	–	–	(49,280)	(49,280)	–	–	19,531	19,531	–	(21,620)	282,375	303,995
Less encumbrances outstanding at June 30, 2008,							–				–				(126,488)	
Add encumbrances outstanding at June 30, 2009							–				–				126,488	
Excess (deficiency) of revenues over expenditures - GAAP basis							(49,280)				19,531				282,375	
Fund balances at July 1, 2009							1,545,345				121,757				4,289,248	
Fund balances at June 30, 2010							1,496,065				141,288				4,571,623	

(Continued)

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, 2010

	Solid Waste				Wastewater				Totals			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
Revenues:												
Intergovernmental:												
State	25,000	25,000	20,689	(4,311)	–	–	–	–	13,687,209	13,687,209	13,594,392	(92,817)
Charges for services	13,251,660	13,251,660	11,545,431	(1,706,229)	18,013,794	18,013,794	16,710,123	(1,303,671)	41,920,219	41,920,219	37,875,912	(4,044,307)
Sale of Property	-	-	–	–	–	–	–	–	65,500	65,500	–	(65,500)
Interest and rents	61,540	61,540	71,120	9,580	38,706	38,706	20,094	(18,612)	301,760	301,760	246,285	(55,475)
Miscellaneous	1,000	1,000	–	(1,000)	–	–	–	–	1,345	1,345	9	(1,336)
Total revenues	$ 13,339,200	13,339,200	11,637,240	(1,701,960)	18,052,500	18,052,500	16,730,217	(1,322,283)	55,976,033	55,976,033	51,716,598	(4,259,435)
Expenditures:												
Current:												
General government	–	–	–	–	–	–	–	–	142,800	142,800	127,183	15,617
Public works	13,339,200	13,299,017	11,795,722	1,503,295	18,052,500	18,052,500	17,372,837	679,663	55,631,033	55,612,470	51,964,542	3,647,928
Community development	–	–	–	–	–	–	–	–	202,200	202,200	173,349	28,851
Total expenditures	$ 13,339,200	13,299,017	11,795,722	1,503,295	18,052,500	18,052,500	17,372,837	679,663	55,976,033	55,957,470	52,265,074	3,692,396
Excess (deficiency) of revenues over expenditures	$ –	40,183	(158,482)	(198,665)	–	–	(642,620)	(642,620)	–	18,563	(548,476)	(567,039)
Less encumbrances outstanding at June 30, 2009			(34,543)				(1,613,814)				(1,774,845)	
Add encumbrances outstanding at June 30, 2010			34,543				1,613,814				1,774,845	
Excess (deficiency) of revenues over expenditures - GAAP basis			(158,482)				(642,620)				(548,476)	
Fund balances at June 30, 2009			2,602,976				4,171,088				12,730,414	
Fund balances at June 30, 2010			2,444,494				3,528,468				12,181,938	

CITY OF NEWPORT NEWS, VIRGINIA
Debt Service Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Non-GAAP Basis)
Year ended June 30, 2010

		Original Budget	Final Budget	Actual	Variance
Revenues:					
Intergovernmental - Local	$	14,982,971	14,982,971	14,916,290	(66,681)
Miscellaneous		-	-	23,466	23,466
Total revenues	$	14,982,971	14,982,971	14,939,756	(43,215)
Expenditures:					
Debt service payments		58,837,594	58,909,889	57,799,483	1,110,406
Total expenditures	$	58,837,594	58,909,889	57,799,483	1,110,406
Excess (deficiency) of revenues over expenditures	$	(43,854,623)	(43,926,918)	(42,859,727)	1,067,191
Transfers in				48,028,805	
Transfers out				–	
Net changes in fund balances				5,169,078	
Fund balances at June 30, 2009				1,342,068	
Fund balances at June 30, 2010				6,511,146	

CITY OF NEWPORT NEWS, VIRGINIA
Combining Statement of Changes in Assets and Liabilities
Agency Funds
Year Ended June 30, 2010

GPWDC		**Balance June 30, 2009**	**Additions**	**Deductions**	**Balance June 30, 2010**
Assets:					
Cash and cash equivalents	$	126,876	4,007,612	3,969,132	165,356
Accounts receivable		425,083	486,220	514,617	396,686
Total assets	$	551,959	4,493,832	4,483,749	562,042
Liabilities:					
Accounts payable	$	270,839	3,614,350	3,743,180	142,009
Due to other agencies		281,120	307,569	168,656	420,033
Total assets	$	551,959	3,921,919	3,911,836	562,042
Other Agency Funds					
Assets:					
Cash and cash equivalents	$	2,666,072	19,311,687	17,910,557	4,067,202
Accounts receivable		3,305,002	18,849,531	18,765,573	3,388,960
Inventory		3,156	–	379	2,777
Total assets	$	5,974,230	38,161,218	36,676,509	7,458,939
Liabilities:					
Accounts payable	$	1,006,514	18,486,519	18,333,736	1,159,297
Due to other governments		3,317,609	705,185	–	4,022,794
Due to other agencies		1,650,107	2,376,183	1,749,443	2,276,847
Total liabilities	$	5,974,230	21,567,887	20,083,179	7,458,938
Total - Agency Funds					
Assets:					
Cash and cash equivalents	$	2,792,948	23,319,299	21,879,689	4,232,558
Accounts receivable		3,730,085	19,335,751	19,280,190	3,785,646
Inventory		3,156	–	379	2,777
Total assets	$	6,526,189	42,655,050	41,160,258	8,020,981
Liabilities:					
Accounts payable	$	1,277,353	22,100,869	22,076,916	1,301,306
Due to other governments		3,317,609	705,185	–	4,022,794
Due to other agencies		1,931,227	2,683,752	1,918,099	2,696,880
Total liabilities	$	6,526,189	25,489,806	23,995,015	8,020,980

CITY OF NEWPORT NEWS, VIRGINIA
Combining Statement of Net Assets
Non-Major Component Units
June 30, 2010

Assets	**Peninsula Airport Commission**	**Economic and Industrial Development Authorities**	**Totals**
Current Assets:			
Cash and cash equivalents	$ 3,072,900	7,014,941	10,087,841
Restricted cash and investments	–	16,991,749	16,991,749
Receivables:			
Accounts	625,087	59,989	685,076
Loans	853,190	202,542	1,055,732
Mortgages	–	543,682	543,682
Primary government	290,000	–	290,000
Commonwealth of Virginia	–	5,150,000	5,150,000
Net investment in direct financing leases	–	1,537,851	1,537,851
Inventories	87,785	–	87,785
Other current assets	116,396	–	116,396
Total current assets	5,045,358	31,500,754	36,546,112
Restricted cash and investments	962,371	154,289	1,116,660
Receivables:			
Loans	–	314,150	314,150
Mortgages	–	252,288	252,288
Notes	–	3,037,590	3,037,590
Primary government	4,050,000	–	4,050,000
Land held for lease or resale	–	18,567,924	18,567,924
Net investment in direct financing leases	–	9,268,966	9,268,966
Other noncurrent assets	145,651	889,796	1,035,447
Property, plant and equipment:			
Land	6,604,658	–	6,604,658
Construction in progress	12,704,659	21,954,638	34,659,297
Infrastructure	–	2,543,500	2,543,500
Buildings	–	164,536,990	164,536,990
Improvements	–	13,794,841	13,794,841
Airfield	72,287,800	-	72,287,800
Terminal	62,498,787	-	62,498,787
Trailer park and rental units	1,910,261	-	1,910,261
Machinery and equipment	4,263,829	84,674	4,348,503
Accumulated depreciation	(58,061,243)	(31,700,952)	(89,762,195)
Total assets	112,412,131	235,199,448	347,611,579
Deferred swap outflow	–	6,534,499	6,534,499
Total assets and deferrals	$ 112,412,131	241,733,947	354,146,078
Liabilities			
Current Liabilities			
Accounts payable	$ 194,867	609,114	803,981
Accrued liabilities	508,553	38,148	546,701
Deposits/deferred revenue	1,121,173	266,999	1,388,172
Due to primary govenrment	–	953,961	953,961
Bonds payable - due within one year	621,306	17,964,708	18,586,014
Total current liabilities	2,445,899	19,832,930	22,278,829
Due to primary government	–	14,067,520	14,067,520
Note payable	–	4,157,104	4,157,104
Due to Newport News Public Schools	–	33,811	33,811
Bonds payable	15,336,853	134,399,323	149,736,176
Other post-retirement employee benefits (OPEB) liability	1,917,251	–	1,917,251
Total liabilities	19,700,003	172,490,688	192,190,691
Net Assets			
Invested in capital assets, net of related debt	86,250,592	49,756,620	136,007,212
Restricted for:			
Capital projects	962,371	10,208,039	11,170,410
Capital loans	–	1,374,176	1,374,176
Unrestricted	5,499,165	7,904,424	13,403,589
Total net assets	92,712,128	69,243,259	161,955,387
Total liabilities and net assets	$ 112,412,131	241,733,947	354,146,078

CITY OF NEWPORT NEWS, VIRGINIA

Combining Statement of Revenues, Expenses and Changes in Net Assets

Non-Major Component Units

Year ended June 30, 2010

	Peninsula Airport Commission	Economic and Industrial Development Authorities	Totals
Operating revenues:			
Charges for services	$ 9,265,938	–	9,265,938
Property rentals	–	10,305,159	10,305,159
Parking contributions	–	232,569	232,569
Intergovernmental-PAC	–	752,537	752,537
Intergovernmental-Parking Authority	–	443,806	443,806
Intergovernmental-primary government	–	12,281,499	12,281,499
Total operating revenues	9,265,938	24,015,570	33,281,508
Operating expenses:			
Personal services	4,222,335	516,869	4,739,204
Contractual services	1,972,232	3,424,692	5,396,924
Materials and supplies	993,216	452,426	1,445,642
Depreciation and amortization	4,802,341	3,910,982	8,713,323
Real estate commissions	–	4,372	4,372
Rental expenses	–	934,411	934,411
Miscellaneous	180,512	529,399	709,911
Total operating expenses	12,170,636	9,773,151	21,943,787
Operating income (loss)	(2,904,698)	14,242,419	11,337,721
Nonoperating revenues (expenses):			
Interest revenue	302,532	200,394	502,926
Bond and admin fee income	–	208,942	208,942
Interest expense	(792,836)	(6,194,160)	(6,986,996)
Letter of credit and trustee fees	–	(175,205)	(175,205)
Amortization - bond costs	(12,318)	–	(12,318)
Other revenues (expenses)	77,127	(3,386,845)	(3,309,718)
OPEB expense	(686,569)	–	(686,569)
Nonoperating expenses, net	(1,112,064)	(9,346,874)	(10,458,938)
Capital contributions, net	13,207,814	–	13,207,814
Change in net assets	9,191,052	4,895,545	14,086,597
Net assets at June 30, 2009	83,521,076	64,347,714	147,868,790
Net assets at June 30, 2010	$ 92,712,128	69,243,259	161,955,387

CITY OF NEWPORT NEWS, VIRGINIA
Statement of Cash Flows
Non-Major Component Units
Year ended June 30, 2010

		Peninsula Airport Commission	Economic and Industrial Development Authorities	Totals
Cash flows from operating activities:				
Receipts from customers	$	9,176,766	24,723,043	33,899,809
Receipts from land sales and new loans, net of settlement charges		-	119,699	119,699
Land Purchases		-	(214,442)	(214,442)
Payments to suppliers		(2,631,529)	(5,313,390)	(7,944,919)
Payments to employees		(4,222,335)	(516,869)	(4,739,204)
Net cash provided by operating activities		2,322,902	18,798,041	21,120,943
Cash flows from capital and related financing activities:				
Acquisition of capital assets		(18,421,323)	(5,792,419)	(24,213,742)
Capital contributions, net		14,204,193	-	14,204,193
Repayment and retirement of industrial revenue bonds and notes payable		(592,381)	(7,919,145)	(8,511,526)
Payment to Newport News Public Schools		-	(241,179)	(241,179)
Proceeds from primary government		275,000	553,757	828,757
Proceeds from Hornsby		-	241,296	241,296
Payment to primary government		-	(1,046,708)	(1,046,708)
Interest paid		(792,836)	(6,248,351)	(7,041,187)
Other revenue (expenses), net		(677)	774,705	774,028
Net cash used in capital and related financing activities		(5,328,024)	(19,678,044)	(25,006,068)
Cash flows from investing activities:				
Net investment in direct financing leases		-	1,481,676	1,481,676
Interest received		309,149	202,002	511,151
Increase in restricted investments, net		3,080,832	-	3,080,832
Net cash provided by investing activities		3,389,981	1,683,678	5,073,659
Increase (decrease) in cash and cash equivalents at beginning of year		384,859	803,675	1,188,534
Cash, cash equivalents and restricted cash at beginning of year		2,688,041	23,356,909	26,044,950
Cash, cash equivalents and restricted cash at end of year	$	3,072,900	24,160,584	27,233,484
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$	(2,904,698)	14,242,419	11,337,721
Adjustment to reconcile operating income to cash provided by operating activities:				
Depreciation		4,802,341	3,910,982	8,713,323
OPEB expense paid		(48,944)	-	(48,944)
Write-off of construction in progress		-	416,313	416,313
Land valuation reduction		-	(744,215)	(744,215)
Changes in assets and liabilities:				
Changes in land inventory		-	738,500	738,500
Mortgages receivable		-	119,699	119,699
Other receivables		(188,568)	(184,566)	(373,134)
Inventories		(7,750)	-	(7,750)
Other assets (expenses), net		(3,029)	-	(3,029)
Accounts payable and accrued liabilities		125,279	31,910	157,189
Deferred revenue		548,271	266,999	815,270
Net cash provided by operating activities	$	2,322,902	18,798,041	21,120,943
Supplemental disclosure:				
Noncash capital activities:				
Payment by State on VASCIC bonds	$	—	4,875,000	4,875,000
Noncash investing and financing activities:				
Construction costs financed by accounts payable	$	3,354	-	3,354
Contributed capital funded by accounts receivable		734,373	-	734,373

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NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(A Pension Trust Fund of Newport News, Virginia)
Combining Statement of Plan Net Assets
June 30, 2010

	Retirement	OPEB	Total
Assets			
Cash and cash equivalents	$ 2,263,698	$ 1,993,315	$ 4,257,013
Cash and cash equivalents with trustee	13,705,402	94,739	13,800,141
Investments, at market value			
Corporate and government bonds	175,921,396	-	175,921,396
Common stock	269,149,355	5,377,928	274,527,283
International stock	72,864,975	-	72,864,975
International emerging markets	31,900,154	-	31,900,154
Real estate	63,219,322	-	63,219,322
Accounts receivable	202,379	4,974,626	5,177,005
Interest receivable	1,314,579	372	1,314,951
Dividend receivable	372,329	6,064	378,393
Sales receivable	2,553,905	53,200	2,607,105
Total assets	$ 633,467,494	$ 12,500,244	$ 645,967,738
Liabilities			
Accounts payable	$ 239,412	$ 2,059,172	$ 2,298,584
Accrued vacation	41,602	-	41,602
Purchases payable	1,804,775	60,166	1,864,941
Total liabilities	2,085,789	2,119,338	4,205,127
Net Assets			
Assets held in trust:			
Postemployment healthcare benefits	-	10,380,906	10,380,906
Employees' retirement	631,381,705	-	631,381,705
Total net assets	631,381,705	10,380,906	641,762,611
Total liabilities	$ 633,467,494	$ 12,500,244	$ 645,967,738

See accompanying notes to basic financial statements

NEWPORT NEWS EMPLOYEES' RETIREMENT FUND
(A Pension Trust Fund of Newport News, Virginia)
Combining Statement of Changes in Plan Net Assets
June 30, 2010

	Retirement	OPEB	Total
Additions (decreases):			
Employer Contributions:			
City General Fund	$ 15,162,691	$ 8,514,330	$ 23,677,021
City Contribution - General Fund	-	2,700,000	2,700,000
Waterworks Fund	1,827,202	723,037	2,550,239
School Operating Fund	4,177,831	-	4,177,831
Other Contributions:			
Income from Leafve Exchange	162,679	-	162,679
Employee Buy-back	1,175,258	-	1,175,258
Medicare Part D - City	-	195,494	195,494
Total contributions	22,505,661	12,132,861	34,638,522
Investment income:			
Net appreciation - bonds	17,210,224	-	17,210,224
Net appreciation - stocks	45,756,776	1,209,080	46,965,856
Interest	8,140,519	6,101	8,146,620
Dividends	5,790,473	156,030	5,946,503
Real estate operating loss, net	(9,044,957)	-	(9,044,957)
Commission recapture	143,543	-	143,543
Other investment income	-	14,995	14,995
Total investment loss	67,996,578	1,386,206	69,382,784
Less investment expenses:			
Other investment expenses	(3,746,934)	(91,919)	(3,838,853)
Net investment gain/(loss)	64,249,644	1,294,287	65,543,931
Total increase/(decrease)	86,755,305	13,427,148	100,182,453
Deductions:			
Benefits:			
Service	50,783,501	-	50,783,501
Occupational death	66,682	-	66,682
Nonoccupational death	17,050	-	17,050
Occupational disability	254,224	-	254,224
Nonoccupational disability	674,695	-	674,695
Reversionary annuity	2,799,079	-	2,799,079
Retirees insurance benefits	-	9,438,701	9,438,701
Total benefits	54,595,231	9,438,701	64,033,932
Administrative expenses:			
Personal services	519,603	-	519,603
Board fees	10,335	-	10,335
Consultant fees	150,381	55,150	205,531
Actuary fees	148,108	61,948	210,056
Audit fees	13,000	5,000	18,000
Medical disability exam fees	6,946	-	6,946
Total administrative expenses	848,373	122,098	970,471
Total deductions	55,443,604	9,560,799	65,004,403
Net increase prior to asset transfer	31,311,701	3,866,349	35,178,050
Less: Cash distribution to Newport News Public Schools	-	(1,587,570)	(1,587,570)
Net increase after asset transfer	31,311,701	2,278,779	33,590,480
Net assets held in trust for pension benefits at June 30, 2009	600,070,004	8,102,127	608,172,131
Net assets held in trust for pension benefits at June 30, 2010	$ 631,381,705	$ 10,380,906	$ 641,762,611

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.

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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.

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Net Assets by Component
Last Nine Fiscal Years
(Accural basis of accounting)

	Fiscal Year								
	2010	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**
Governmental activities									
Invested in capital assets, net of related debt	$ 251,724,446	$ 228,275,222	$ 223,305,188	$ 190,926,170	$ 175,306,479	$ 162,580,785	$ 126,254,500	$ 124,001,270	$ 143,341,486
Restricted	1,034,412	1,517,751	1,853,588	2,234,557	1,521,091	3,998,951	34,052,310	28,883,536	27,651,803
Unrestricted	(59,047,595)	(46,605,508)	(37,333,216)	(3,441,801)	14,603,368	30,067,425	35,374,896	43,581,266	24,243,772
Total governmental activities net assets	$ 193,711,263	$ 183,187,465	$ 187,825,560	$ 189,718,926	$ 191,430,938	$ 196,647,161	$ 195,681,706	$ 196,466,072	$ 195,237,061
Business-type activities									
Invested in capital assets, net of related debt	$ 239,614,458	$ 276,666,222	$ 277,770,877	$ 269,150,510	$ 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	30,655,012	41,643,472	29,287,711	24,572,102	18,150,853	16,912,260	10,242,607	9,443,893	11,949,775
Total business-type activities net assets *	$ 270,269,470	$ 318,309,694	$ 307,058,588	$ 293,722,612	$ 283,315,271	$ 266,628,660	$ 252,048,271	$ 237,487,733	$ 226,255,043
Primary government									
Invested in capital assets, net of related debt	$ 491,338,904	$ 504,941,444	$ 501,076,065	$ 460,076,680	$ 440,245,897	$ 412,072,185	$ 351,096,679	$ 328,643,496	$ 338,743,048
Restricted	1,034,412	1,517,751	1,853,588	2,234,557	1,746,091	4,223,951	51,015,795	52,285,150	46,555,509
Unrestricted (deficit)	(28,392,583)	(4,962,036)	(8,045,505)	21,130,301	32,754,221	46,979,685	45,617,503	53,025,159	36,193,547
Total primary government net assets	$ 463,980,733	$ 501,497,159	$ 494,884,148	$ 483,441,538	$ 474,746,209	$ 463,275,821	$ 447,729,977	$ 433,953,805	$ 421,492,104

Note: The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002.
* Effective in fiscal year 2007: Parking Authority is no longer reported as a business-type activity; it is now reported under The Economic and Industrial Development Authorities (E/IDA)

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

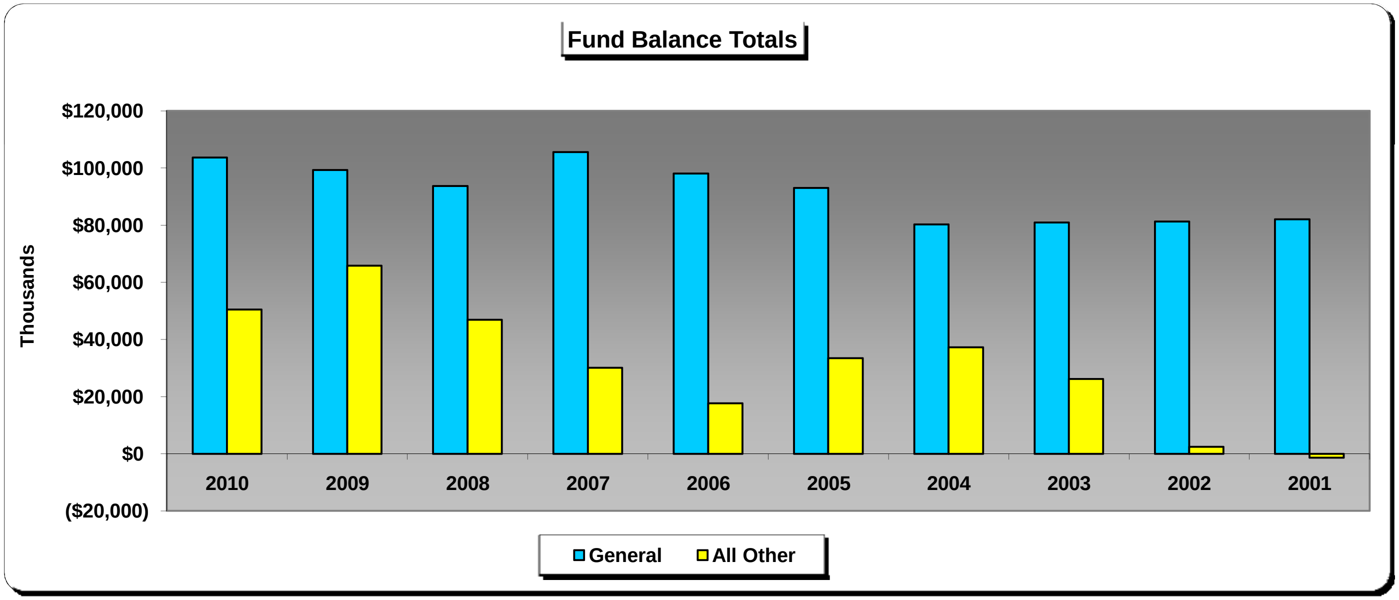
	Fiscal Year								
	2010	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**
Program revenues									
Governmental activities:									
Charges for services:									
Public works	$ 37,744,481	$ 34,526,097	$ 30,513,564	$ 28,057,816	$ 26,160,999	$ 23,453,616	$ 22,952,047	$ 21,937,252	$ 21,192,265
All others	25,805,742	26,406,149	25,760,135	25,941,895	24,758,610	24,671,063	22,932,430	21,339,768	20,110,042
Operating grants and contributions	42,704,554	44,966,813	45,835,149	44,078,633	43,861,201	59,841,991	49,539,479	47,548,988	44,083,309
Capital grants and contributions	4,740,959	1,962,681	2,140,343	2,771,153	2,970,950	11,326,181	13,693,887	985,347	1,914,845
Total governmental activities program revenues	110,995,736	107,861,740	104,249,191	100,849,497	97,751,760	119,292,851	109,117,843	91,811,355	87,300,461
Business-type activities:									
Charges for services	72,719,343	73,817,176	76,003,756	71,908,595	72,397,545	64,692,616	63,863,831	59,623,977	59,617,522
Total business-type activities program revenues	72,719,343	73,817,176	76,003,756	71,908,595	72,397,545	64,692,616	63,863,831	59,623,977	59,617,522
Total primary government program revenues	183,715,079	181,678,916	180,252,947	172,758,092	170,149,305	183,985,467	172,981,674	151,435,332	146,917,983
Expenses									
Governmental activities:									
General government	56,496,116	67,006,531	54,904,104	54,577,481	64,991,195	57,053,132	75,766,012	57,068,233	47,277,252
Judicial administration	7,061,964	7,042,239	7,269,926	6,919,927	6,397,049	6,060,839	5,283,193	4,848,126	5,420,075
Public safety	119,642,698	120,240,436	119,019,088	112,089,213	100,481,015	96,637,983	87,907,570	77,928,537	75,902,430
Public works	71,950,527	70,635,586	70,571,291	66,258,073	63,695,077	54,351,940	49,364,947	46,393,246	49,191,819
Health and welfare	52,805,082	56,468,567	58,563,411	56,061,131	53,362,500	53,692,902	51,593,737	47,748,437	43,764,515
Education	119,956,981	116,528,527	114,275,568	117,460,703	104,054,463	107,463,439	95,799,045	92,183,490	95,839,841
Parks, recreation and culture	32,614,571	34,409,781	36,183,209	32,557,355	29,934,662	27,059,823	26,372,043	24,866,503	22,913,528
Community development	10,369,291	8,832,458	10,623,457	8,700,790	11,168,279	10,455,402	6,568,809	7,169,887	7,456,287
Interest on long-term debt	23,923,629	25,487,370	24,118,788	21,149,858	17,169,976	19,109,084	19,083,650	18,458,814	19,441,810
Total governmental activities expenses	494,820,859	506,651,495	495,528,842	475,774,531	451,254,216	431,884,544	417,739,006	376,665,273	367,207,557
Business-type activities:									
Public utilities	64,078,572	62,684,897	59,439,084	54,357,032	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	64,078,572	62,684,897	59,439,084	54,357,032	51,593,823	46,300,350	45,325,343	45,012,459	41,985,325
Total primary government expenses	558,899,431	569,336,392	554,967,926	530,131,563	502,848,039	478,184,894	463,064,349	421,677,732	409,192,882
Net Revenue/(Expenditures)									
Governmental activities	(383,825,123)	(398,789,755)	(391,279,651)	(374,925,034)	(353,502,456)	(312,591,693)	(308,621,163)	(284,853,918)	(279,907,096)
Business-type activities	8,640,771	11,132,279	16,564,672	17,551,563	20,803,722	18,392,266	18,538,488	14,611,518	17,632,197
Total primary government	(375,184,352)	(387,657,476)	(374,714,979)	(357,373,471)	(332,698,734)	(294,199,427)	(290,082,675)	(270,242,400)	(262,274,899)
General revenues and Other Changes in Net Assets									
Governmental activities:									
Property taxes	236,993,370	233,735,214	219,867,771	207,827,846	187,912,894	172,575,384	159,841,724	154,600,404	145,591,688
Other taxes	88,595,948	89,624,744	93,161,528	90,412,582	89,170,125	83,396,354	80,131,054	74,799,019	68,401,249
Unrestricted grants and contributions	48,630,187	48,993,988	49,350,467	48,308,625	45,473,865	37,699,447	39,506,422	40,336,019	38,959,068
Investment earnings	2,663,324	3,596,647	6,169,470	6,465,913	5,007,664	3,116,612	4,211,328	3,014,372	3,763,911
Miscellaneous	7,466,092	8,201,067	10,837,049	11,087,567	11,587,686	8,013,660	5,713,465	4,399,115	7,127,513
Transfers	10,000,000	10,000,000	10,000,000	9,110,489	9,134,000	9,134,000	9,134,001	8,934,000	8,674,000
Total governmental activities	394,348,921	394,151,660	389,386,285	373,213,022	348,286,234	313,935,457	298,537,994	286,082,929	272,517,429
Business-type activities:									
Investment earnings	549,737	1,940,465	2,988,546	1,926,084	1,240,697	485,453	301,763	390,821	825,870
Miscellaneous	5,381,669	8,332,219	3,782,758	3,530,826	3,753,852	4,836,670	4,854,288	5,164,351	4,045,092
Extraordinary loss	(52,612,401)	-	-	-	-	-	-	-	-
Transfers	(10,000,000)	(10,000,000)	(10,000,000)	(9,110,489)	(9,134,000)	(9,134,000)	(9,134,001)	(8,934,000)	(8,674,000)
Total business-type activities	(56,680,995)	272,684	(3,228,696)	(3,653,579)	(4,139,451)	(3,811,877)	(3,977,950)	(3,378,828)	(3,803,038)
Total primary government	337,667,926	394,424,344	386,157,589	369,559,443	344,146,783	310,123,580	294,560,044	282,704,101	268,714,391
Changes in Net Assets									
Governmental activities	10,523,798	(4,638,095)	(1,893,366)	(1,712,012)	(5,216,222)	1,343,764	(10,083,169)	1,229,011	(7,389,667)
Business-type activities	(48,040,224)	11,404,963	13,335,976	13,897,984	16,664,271	14,580,389	14,560,538	11,232,690	13,829,159
Total primary government	$ (37,516,426)	$ 6,766,868	$ 11,442,610	$ 12,185,972	$ 11,448,049	$ 15,924,153	$ 4,477,369	$ 12,461,701	$ 6,439,492

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

*** Effective fiscal year 2007: Parking Authority is no longer reported as a business-type activity; they are now reported under The Economic and Industrial Development Authorities (E/IDA).**

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

	Fiscal Year									
	2010	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
General fund										
Reserved	$ 6,305,988	$ 5,194,291	$ 6,009,589	$ 6,791,817	$ 6,356,403	$ 7,284,539	$ 6,911,653	$ 5,940,726	$ 5,365,065	$ 4,761,194
Unreserved	97,366,646	94,164,397	87,703,448	98,820,178	91,686,630	85,724,284	73,370,464	74,999,428	75,929,505	77,330,445
Total general fund	$ 103,672,634	$ 99,358,688	$ 93,713,037	$ 105,611,995	$ 98,043,033	$ 93,008,823	$ 80,282,117	$ 80,940,154	$ 81,294,570	$ 82,091,639
All other governmental funds										
Reserved	$ 17,170,639	$ 11,977,232	$ 14,741,065	$ 12,333,840	$ 21,873,135	$ 28,361,951	$ 10,399,097	$ 11,101,083	$ 21,630,621	$ 20,238,169
Unreserved, reported in:										
Special revenue fund	12,372,862	15,126,615	10,474,287	9,267,465	8,845,238	10,597,971	12,155,851	9,562,264	9,538,311	8,914,930
Debt service fund	6,511,346	1,258,059	2,695,240	1,306,632	319,453	1,137,289	2,524,220	2,501,364	1,789,944	1,554,333
Capital project fund	13,290,298	10,927,505	11,555,870	9,492,210	2,749,848	1,253,898	1,408,532	369,835	622,142	(32,103,900)
Bond fund	1,144,480	26,477,781	7,393,868	(2,354,461)	(16,143,636)	(7,897,965)	10,795,788	2,620,832	(31,133,143)	-
Total all other governmental funds	$ 50,489,625	$ 65,767,192	$ 46,860,330	$ 30,045,686	$ 17,644,038	$ 33,453,144	$ 37,283,488	$ 26,155,378	$ 2,447,875	$ (1,396,468)



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									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Revenues										
General Property Taxes	$236,184	$233,632	$219,316	$208,128	$189,477	$170,347	$159,876	$153,829	$145,514	$138,817
Other Local Taxes	88,596	89,625	93,162	90,413	89,170	83,396	80,131	74,799	68,401	66,196
Lincenses and Permits	2,846	3,170	3,672	3,315	3,487	3,706	2,690	2,949	3,015	2,383
Fines and Forteitures	2,213	1,981	1,881	1,826	2,079	2,187	2,231	2,001	1,806	1,554
Interest and Rents	2,653	3,579	6,147	6,437	4,987	3,129	4,206	3,006	3,747	5,882
Charges for Services	55,523	51,003	46,403	44,484	41,289	37,981	36,836	35,105	33,699	32,351
Recovered Costs	5,814	7,948	8,718	7,690	7,551	8,737	6,818	6,171	7,603	7,153
Intergovernmental	92,883	95,048	96,745	94,477	90,199	103,533	102,439	86,444	83,490	65,079
Miscellaneous	3,348	3,821	4,964	5,411	6,714	3,662	3,077	2,983	2,777	3,735
Total Revenues	490,060	489,807	481,008	462,181	434,953	416,678	398,304	367,287	350,052	323,150
Expenditures										
General Government	51,254	51,921	49,368	48,637	57,389	46,546	44,281	46,578	39,479	20,739
Judicial Administration	6,236	6,148	6,218	5,910	5,517	5,184	4,968	4,626	4,846	4,607
Public Safety	108,877	108,467	105,008	99,472	90,508	86,910	82,528	75,105	73,439	70,917
Public Works	58,764	57,178	56,174	51,798	49,915	42,017	40,108	38,164	38,069	33,959
Health and Welfare	49,309	52,154	52,892	50,487	48,989	44,957	48,845	46,483	42,868	38,889
Education	119,581	119,088	121,770	121,050	104,848	109,639	99,397	102,828	99,113	75,144
Parks Recreation Culture	25,976	27,082	28,174	26,384	24,412	21,822	20,732	19,557	19,508	18,863
Community Development	8,959	7,439	8,899	7,140	9,573	8,932	6,040	6,813	6,679	4,875
Non-Departmental	-	-	-	-	-	-	-	-	-	17,847
Debt Service:										
Principal	33,444	34,422	35,742	31,333	31,156	38,750	26,536	24,422	22,084	24,017
Interest	24,356	26,054	24,792	21,861	17,281	20,625	19,371	18,313	19,014	18,576
Capital Outlay	27,186	21,858	33,615	37,535	52,626	25,945	33,992	29,551	28,454	18,042
Bond Issuance Cost	-	-	-	370	475	-	-	-	-	-
Total Expenditures	513,942	511,811	522,651	501,977	492,689	451,327	426,798	412,440	393,553	346,475
Excess (deficiency) of Revenues Over (under) Expenditures	(23,882)	(22,004)	(41,643)	(39,796)	(57,736)	(34,649)	(28,494)	(45,153)	(43,501)	(23,325)
Other Financing Sources (Uses)										
Transfer In	69,587	66,217	78,707	63,120	51,963	44,599	40,261	38,638	37,100	51,330
Transfer Out	(59,587)	(56,217)	(68,707)	(54,010)	(42,829)	(35,465)	(34,051)	(29,704)	(28,426)	(44,336)
Payment to Refund Bonds	-	(136)	-	(22,380)	(30,533)	(11,785)	(71,635)	(73,517)	-	-
Premium on Refunded Bonds	-	663	1,716	3,666	2,131	1,109	644	-	-	-
Refund Bonds Proceeds	-	481	-	20,370	28,020	12,720	71,635	-	-	-
Bond and Note Proceeds	2,918	35,549	34,843	49,001	37,873	32,367	29,312	133,091	37,875	8,414
Premium on Bonds Issuance	-	-	-	-	985	-	-	-	-	-
Capital Leases	-	-	-	-	-	-	388	-	-	-
Total Other Financing Sources (Uses)	12,918	46,557	46,559	59,767	47,610	43,545	36,554	68,508	46,549	15,408
Net Change in Fund Balance	($10,964)	$24,553	$4,916	$19,971	($10,126)	$8,896	$8,060	$23,355	$3,048	($7,917)
Debt Service as a Percentage of Noncapital Expenditures	11.9%	12.3%	12.4%	11.5%	11.0%	14.0%	11.7%	11.2%	11.3%	13.0%

Note: Prior to GASB 34 implemention 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
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2001-2010
Property tax	$236,183,979	$233,631,532	$219,315,976	$208,128,176	$189,477,417	$170,347,467	$159,875,655	$153,828,500	$145,513,560	$138,816,999	70.1%
E911 service	737,734	708,725	571,027	1,078,375	2,750,556	2,737,853	2,788,546	2,937,283	2,939,559	2,621,285	-71.9%
Telecom sales	12,018,133	12,416,819	13,177,014	4,772,796	-	-	-	-	-	-	44.7%
Sales tax	20,862,730	21,930,591	23,572,320	23,276,742	22,432,446	20,955,339	20,294,801	18,801,952	17,777,556	17,117,654	21.9%
Utility tax	6,321,381	6,137,436	6,112,238	8,017,460	9,254,101	9,515,933	9,345,342	9,608,733	9,027,951	10,331,465	-38.8%
Cellular telephone tax	-	-	-	2,138,607	3,117,614	2,848,339	2,615,736	2,357,579	1,888,160	1,146,206	0.0%
Consumption tax	776,672	728,656	704,570	695,383	774,586	641,699	680,202	688,401	623,617	296,476	121.0%
Business license tax	15,266,938	14,676,421	15,116,393	14,770,199	14,701,673	13,391,073	12,199,360	11,375,961	11,373,050	10,987,284	39.0%
Rental car tax	1,021,610	1,058,659	996,093	966,780	932,481	870,813	898,190	792,298	763,427	757,137	34.9%
Franchise license tax	-	-	-	890,920	1,732,167	1,670,013	1,606,670	1,540,204	1,604,246	1,630,903	0.0%
Cable television tax	-	-	-	1,225,349	2,108,165	2,006,039	2,087,952	2,088,184	1,857,017	1,696,050	0.0%
Motor vehicle license tax	3,922,803	3,905,814	3,531,053	3,578,087	3,585,645	3,585,609	3,531,624	3,436,659	3,385,495	3,271,853	19.9%
Bank stock tax	1,015,597	727,678	588,882	584,773	600,317	532,019	544,584	556,238	719,430	776,332	30.8%
Recordation and wills tax	1,263,938	1,461,537	2,219,287	2,120,046	2,535,995	1,969,391	1,052,317	885,362	769,022	603,032	109.6%
Tobacco tax	4,160,343	4,119,169	4,205,798	4,406,514	4,622,565	4,639,855	5,090,983	3,720,193	2,929,615	2,933,042	41.8%
Hotel and motel room tax	2,969,053	3,130,281	3,454,926	3,386,331	2,802,362	2,686,120	2,724,109	2,458,217	1,713,638	1,566,968	89.5%
Restaurant food tax	17,765,937	18,074,235	18,348,254	17,943,384	16,649,811	14,779,660	14,092,861	12,987,152	10,449,262	9,945,796	78.6%
Amusement tax	493,079	548,722	563,673	560,836	569,643	566,599	577,777	564,602	580,204	514,713	-4.2%
Total Taxes	$324,779,927	$323,256,275	$312,477,504	$298,540,758	$278,647,544	$253,743,821	$240,006,709	$228,627,518	$213,914,809	$205,013,195	58.4%

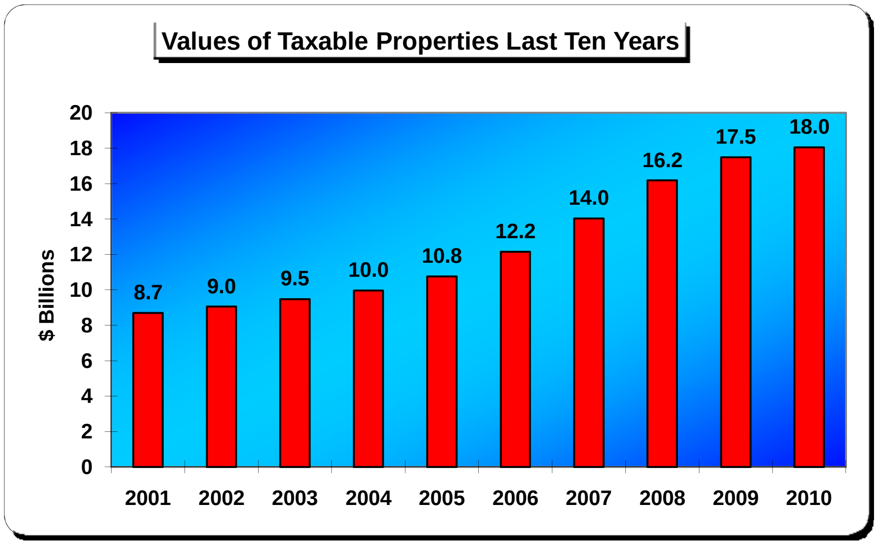
Note: **Consumption tax was implemented in FY 2001, therefore the percent change is based on FY 2001 figure.**
Effective in FY 2007, all communication taxes (E-911, utility, cellular telephone, franchise license and cable television) are reported under telecom sales.

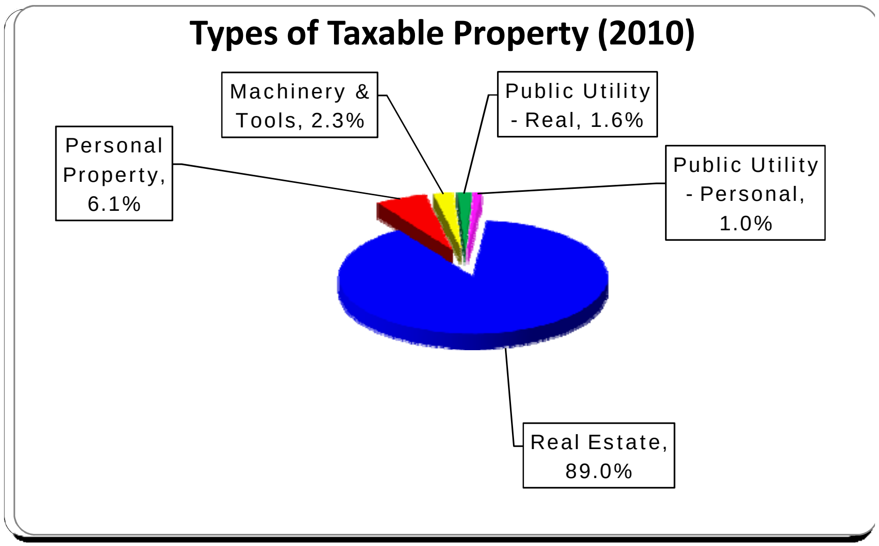
City of Newport News, Virginia
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(In thousands of dollars)

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Utility Real Estate	Public Utility Personal Property	Less: Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value
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
2007	15,141,893	1,161,864	352,403	180,706	92,112	(2,901,608)	14,027,370	1.55	16,928,978
2008	17,390,981	1,233,279	364,010	211,388	136,000	(3,157,425)	16,178,233	1.53	19,335,658
2009	19,011,429	1,195,193	397,899	250,995	163,492	(3,530,295)	17,488,713	1.51	21,019,008
2010	19,762,256	1,154,011	419,441	293,307	172,545	(3,753,027)	18,048,533	1.37	21,801,560

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 FY2006, total direct rate and estimated actual taxable value was not required.

Source: City of Newport News Real Estate Assessors Office





City of Newport News

Direct and Overlapping Property Taxes

Last Ten Fiscal Years

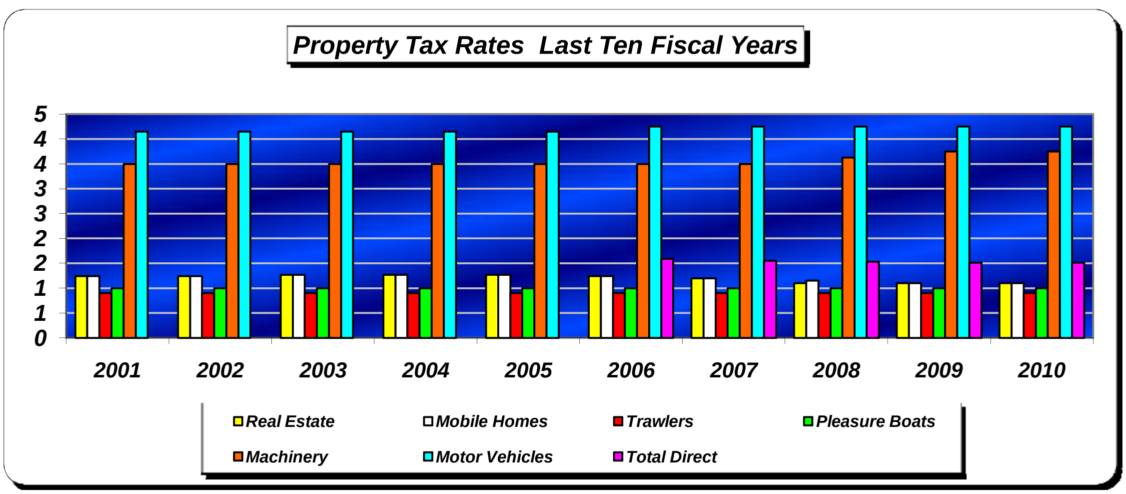
(Rate per $100 of assessed value)

City Direct Rates

Fiscal Year	Real Estate	Mobile Homes	Trawlers	Pleasure Boats	Machinery & Tools	Motor Vehicles	Total Direct Rate
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
2007	1.20	1.20	0.90	1.00	3.50	4.25	1.55
2008	1.10	1.15	0.90	1.00	3.63	4.25	1.53
2009	1.10	1.10	0.90	1.00	3.75	4.25	1.51
2010	1.10	1.10	0.90	1.00	3.75	4.25	1.51

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

Source: City of Newport News Office of the Commissioner of Revenue



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

	2010		2001	
	Taxable Assessed Value	Percentage of Assessments	Taxable Assessed Value	Percentage of Assessments
Northrop Grumman Shipbuilding Inc *1	$14,944	8.48%	$11,141	8.06%
Canon Virginia Inc *2	2,412	1.37%	2,195	1.59%
Continental Automotive Systems Us Inc	1,831	1.04%	-	-
The Mariners Museum (Riverside Hospital)	1,582	0.90%	489	0.35%
PR Patrick Henry L L C *8	1,453	0.82%	1,104	0.80%
Dominion Virginia Power *6	1,154	0.65%	1,616	1.17%
Kinder Morgan Operation LP”C”	1,050	0.60%	425	0.31%
Dominion Terminal Associates *3	1,035	0.59%	968	0.70%
Verizon Virginia Inc *7	881	0.50%	768	0.56%
Inland Western Newport News	793	0.45%	-	-
Ferguson Enterprises Corp	582	0.33%	-	-
Bottling Group L L C *4	526	0.30%	213	0.15%
Oyster Point Residential L L C	521	0.30%	-	-
United Dominion Realty Trust Inc	507	0.29%	314	0.23%
Patrick Henry Hospital (Warwick Forest)	496	0.28%	-	-
Meridian Parkside Apartments L L C	467	0.26%	-	-
Cox Communications Hampton Roads, Inc	457	0.26%	278	0.20%
Shorewood Packaging Corp Of Va	435	0.25%	465	0.34%
Virginia Natural Gas Inc	433	0.25%	529	0.38%
Harbours L L C *5	402	0.23%	203	0.15%
Seimens - Bendix Automotive	-	-	1,742	1.26%
Seimens Credit	-	-	529	0.38%
The Daily Press Inc	-	-	319	0.23%
CSX Transportation	-	-	307	0.22%
Denbigh Associates	-	-	225	0.16%
Newport-Oxford Associates Ltd	-	-	207	0.15%
Total	$31,961	18.13%	$24,037	17.39%

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

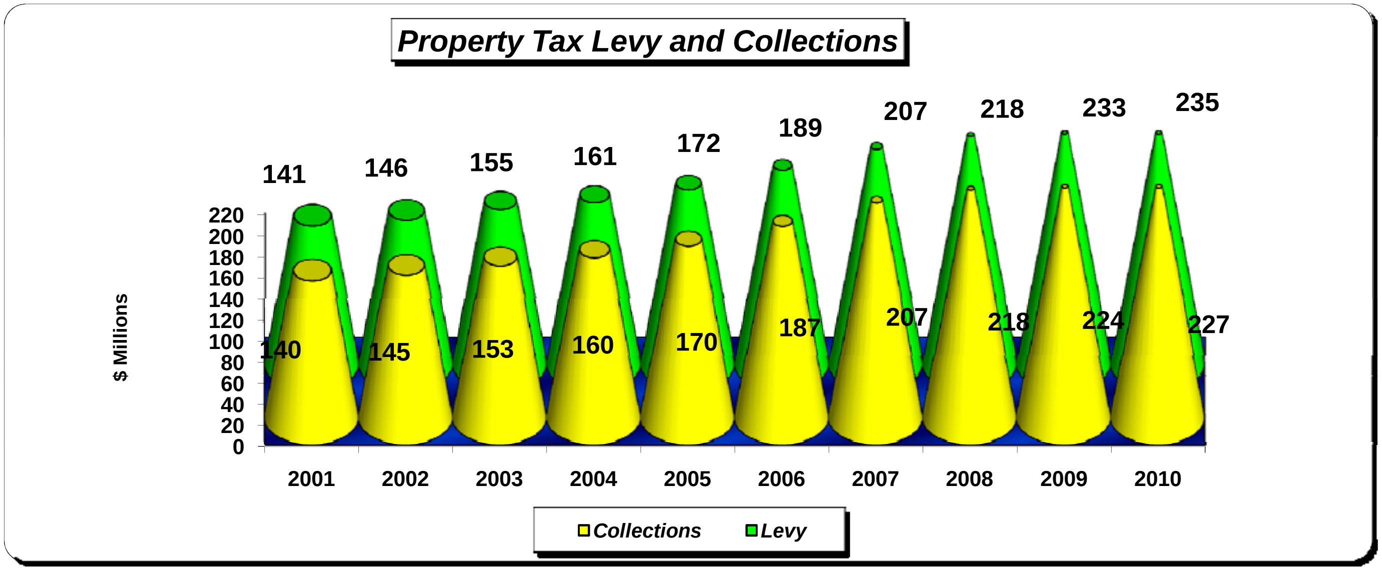
Source: City of Newport News Real Estate Assessors Office and Office of the Commissioner of Revenue

*1 Previously Newport News Shipbuilding and Dry Dock Company
*2 Previously Canon USA Inc
*3 Previously Peninsula Port Authority - Dominion Terminal Associates
*4 Previously Pepsi-Cola Packaging
*5 Previously Harbours Associates
*6 Previously Virginia Electric & Power Company
*7 Previously Bell Atlantic
*8 Previously Crown American Financing

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

Fiscal Year	Tax Levy	Current Year Amount	Current Year % of Levy	Prior Year Amount	Collections in Subsequent Years	Total Collections for Year Amount	Total Collections for Year % of Levy
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	180,295	95.5%	-	6,355	186,650	98.8%
2007	207,427	200,041	96.4%	-	7,236	207,277	99.9%
2008	218,395	210,243	96.3%	-	7,831	218,074	99.9%
2009	232,507	224,199	96.4%	-	7,592	224,199	96.4%
2010	235,225	227,030	96.5%	-	Not Available	227,030	96.5%

Note: **Prior to the implemention of GASB 44 in FY 2006, collections in subsequent years was not required to be reported by tax year. FY 2008 amounts were corrected in 2009 to accurately report current and subsequent year collections.**



City of Newport News, Virginia

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

(Dollars in thousands, except per capita)

	Fiscal Year									
	2010	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Population	193,172	193,212	187,200	186,000	186,000	185,240	185,200	181,640	180,305	180,150
Personal Income	-	-	-	$ 5,500,739	$ 5,225,657	$ 5,086,295	$ 4,872,092	$ 4,598,879	$ 4,416,298	$ 4,266,810
Governmental Activities:										
General Obligation Bonds	$ 383,753	$ 413,482	$ 411,159	$ 411,567	$ 401,020	$ 394,354	$ 399,243	$ 397,114	$ 363,037	$ 347,170
Guaranty of Peninsula Airport Bonds	4,780	5,055	5,315	5,565	5,800	6,000	6,245	6,450	6,640	12,700
Literary Fund	7,237	8,034	8,830	9,321	2,895	3,564	4,233	4,903	5,429	5,219
Capital Leases	-	388	53	140	219	293	360	45	122	184
Bond Anticipation Notes	-	-	-	-	-	-	-	-	20,000	-
Business-type Activities:										
Public Utility Bonds	186,330	217,720	208,855	195,155	152,675	165,220	178,025	189,110	178,215	142,525
Total Primary Government	$ 582,100	$ 644,679	$ 634,212	$ 621,748	$ 562,609	$ 569,431	$ 588,106	$ 597,622	$ 573,443	$ 507,798
Percentage of Personal Income	0.0%	0.0%	0.0%	11.3%	10.8%	11.2%	12.1%	13.0%	13.0%	11.9%
Net Bonded Debt Per Capita	$ 3,013	$ 3,337	$ 3,388	$ 3,343	$ 3,025	$ 3,074	$ 3,176	$ 3,290	$ 3,180	$ 2,819

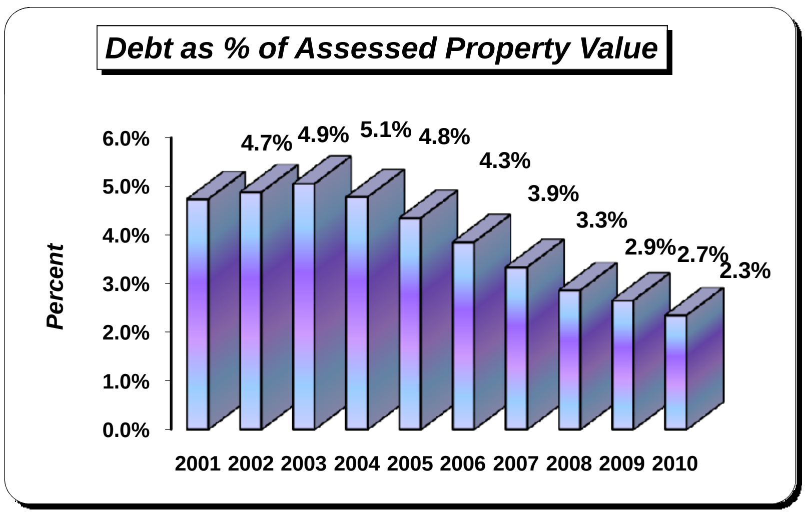
Note: Population figures are derived as follows: 2000; 2003 - 2009 City estimates, 2001, 2005 and 2010 Census Bureau, 2002 Virginia Employment Commission

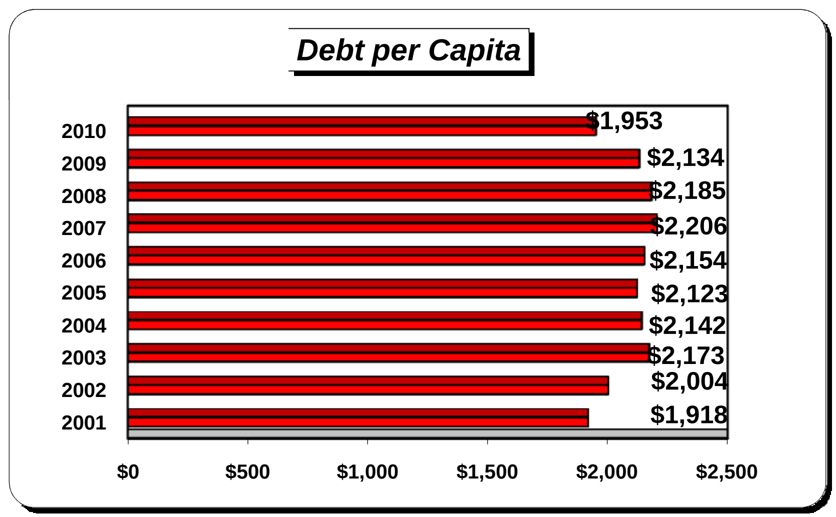
Note: Personal Income figures were not available for FY2008, FY2009 and FY2010.

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
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
2007	186,000	12,293,454	411,567	1,307	410,260	3.3%	2,206
2008	187,200	14,286,003	411,159	2,139	409,020	2.9%	2,185
2009	193,212	15,527,921	413,482	1,258	412,224	2.7%	2,134
2010	193,172	16,059,444	383,753	6,511	377,242	2.3%	1,953

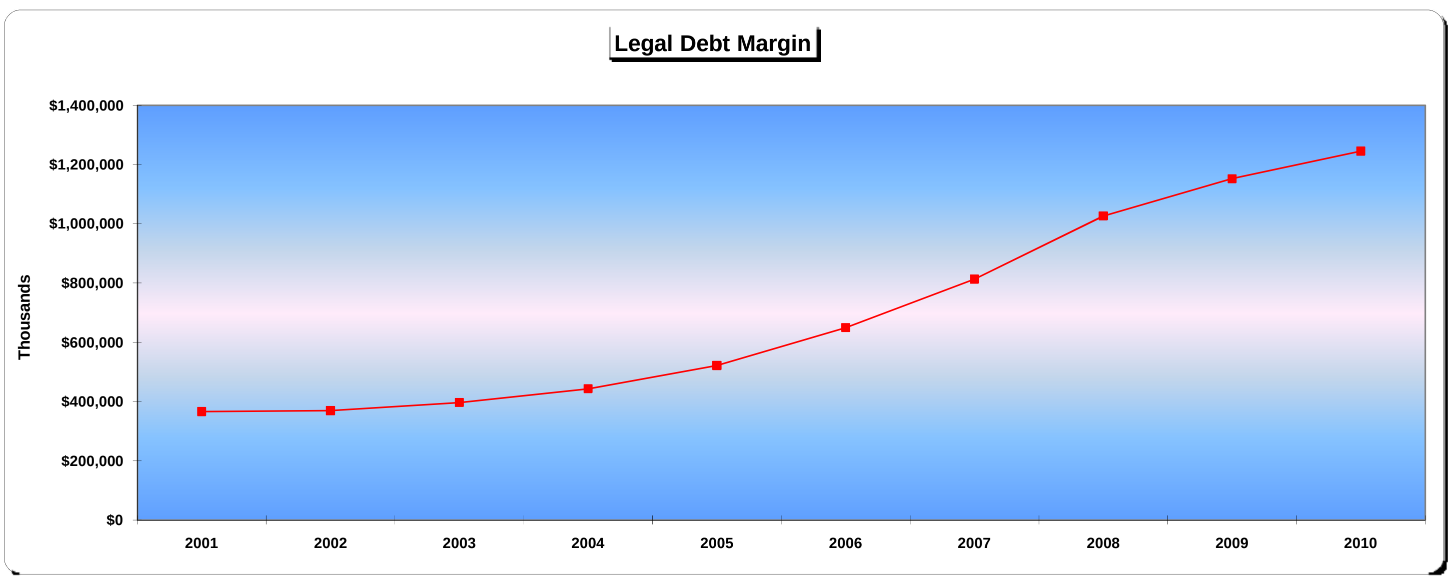
Note: Population figures are derived as follows: 2000; 2003 - 2009 City estimates, 2001, 2005 and 2010 Census Bureau, 2002 Virginia Employment Commission





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

	Fiscal Year									
	2010	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Assessed Value of Real Estate:										
General	$16,059,444,443	$15,527,920,717	$14,286,002,924	$12,293,453,737	$10,404,206,752	$9,042,610,300	$8,301,266,000	$7,807,813,049	$7,406,809,000	$7,082,449,000
Public Service Corporations	293,307,435	250,994,845	211,388,045	180,706,024	186,889,718	204,600,000	209,128,000	220,333,000	224,419,000	216,272,000
Total assessed value	16,352,751,878	15,778,915,562	14,497,390,969	12,474,159,761	10,591,096,470	9,247,210,300	8,510,394,000	8,028,146,049	7,631,228,000	7,298,721,000
Total debt limit (10% of Total Assessed Value)	1,635,275,188	1,577,891,556	1,449,739,097	1,247,415,976	1,059,109,647	924,721,030	851,039,400	802,814,605	763,122,800	729,872,100
Bonds Outstanding:										
General Obligation	341,405,000	378,499,990	371,155,000	378,656,195	358,855,000	353,330,000	359,055,000	358,345,000	323,890,000	307,535,000
General Obligation: Virginia Public School Authority (VPSA)	6,105,937	6,929,403	7,728,827	8,506,195	9,263,363	10,000,000	10,717,000	11,414,389	12,095,723	12,754,094
General Obligation:Virginia Resources Authority (VRA) Loan Fund	30,761,968	21,997,022	25,644,960	25,705,339	25,121,275	22,668,400	20,452,000	19,731,824	17,918,003	16,238,448
General Obligation: Virginia Municipal Pool Loans (VMPL)	3,037,565	3,612,565	4,187,565	4,762,565	5,337,565	5,912,600	6,577,800	7,622,753	9,132,753	10,642,753
Guaranty of Peninsula Airport Bonds	4,780,000	5,055,000	5,315,000	5,565,000	5,800,000	6,000,000	6,245,000	6,450,000	6,640,000	12,700,000
Literary Fund	7,598,441	8,034,421	8,829,688	9,320,937	2,894,833	3,564,100	4,233,000	4,902,580	5,429,377	5,219,262
Qualified Zone Academy Bonds (QZAB)	2,442,494	2,442,494	2,442,494	2,442,494	2,442,494	2,442,500	2,442,494	-	-	-
Bond Anticipation Notes	-	-	-	-	-	-	-	-	20,000,000	-
OPDC General Obligation Bonds	-	-	-	-	-	-	-	-	-	-
Capital leases	360,965	387,811	53,406	139,513	219,145	292,800	360,000	45,405	122,396	184,258
Amount available in Debt Service Fund	(6,511,346)	(1,258,059)	(2,138,839)	(1,306,632)	(319,453)	(1,137,300)	(2,524,220)	(2,501,364)	(1,789,944)	(1,566,892)
Total debt outstanding	389,981,024	425,700,647	423,218,101	433,791,606	409,614,222	403,073,100	407,558,074	406,010,587	393,438,308	363,706,923
Legal debt margin	$1,245,294,164	$1,152,190,909	$1,026,520,996	$813,624,370	$649,495,425	$521,647,930	$443,481,326	$396,804,018	$369,684,492	$366,165,177
Total net debt applicable to the limit as a % of debt limit	76.15%	73.02%	70.81%	65.22%	61.32%	56.41%	52.11%	49.43%	48.44%	50.17%



City of Newport News, Virginia
Pledged-Revenue Coverage
Current and Prior Fiscal Years

Water Revenue Bonds

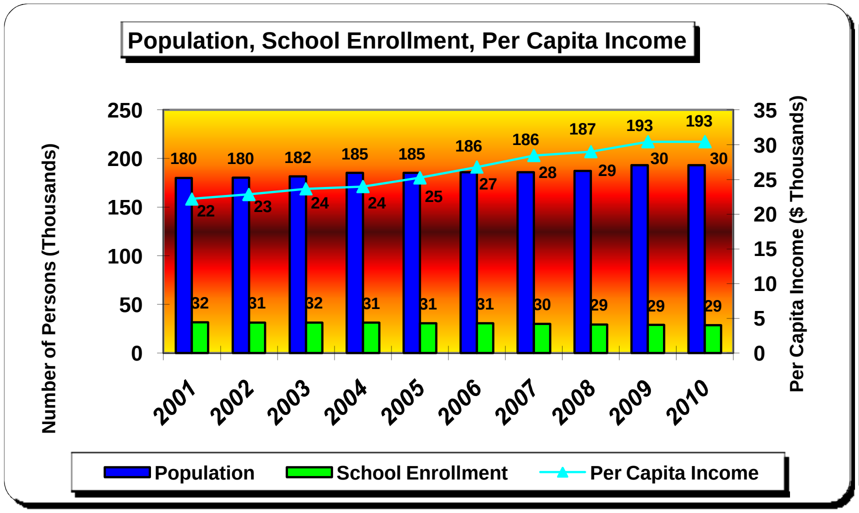
Fiscal Year	Utility Revenues	Less: Operating Expenses	Net Available Revenue
2010	71,430,670	42,696,817	28,733,853
2009	78,895,705	41,913,154	36,982,551
2008	76,709,312	40,055,422	36,653,890
2007	71,968,747	36,474,026	35,494,721

Notes: (1) Details regarding Public Utilities' outstanding debt can be found in the notes to the financial statements.
(2) Operating expenses exclude depreciation.

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
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	5,086,295	25,233	32	30,827	4.8%
2006	186,000	5,225,657	26,782	32	30,635	4.2%
2007	186,000	5,500,739	28,436	33	30,218	3.4%
2008	187,200	5,941,588	28,990	34	29,441	4.0%
2009	193,212	-	30,423	33	29,023	6.5%
2010	193,172	-	30,423	32	28,610	8.0%

Sources:
Population and Age: 2000; 2003 - 2009 City of Newport News; 2001, 2005 and 2010 Census Bureau; 2002 Virginia Employment Commission.
Personal Income: 2000 - 2007 Virginia Employment Commission; 2008 Bureau of Economic Accounts; 2009 - 2010 were not available at year-end.
Per Capita Income: 2000 City of Newport News; 2001 and 2005 Census Bureau; 2002 - 2010 Bureau of Economic Analysis.
Unemployment Rate: 2000 - 2009 Virginia Employment Commission; 2010 Virginia Workforce Connection.



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

	2010		2001	
	Employees	**% of Total City Employment**	**Employees**	**% of Total City Employment**
Newport News Shipbuilding	10,000 - 20,000	16.52%	10,000 - 20,000	17.80%
Newport News Public Schools	1,000 - 5,000	3.30%	1,000 - 5,000	3.56%
Riverside Regional Medical Center	1,000 - 5,000	3.30%	1,000 - 5,000	3.56%
City of Newport News	1,000 - 5,000	3.30%	1,000 - 5,000	3.56%
U. S. Department of Defense	1,000 - 5,000	3.30%	1,000 - 5,000	3.56%
Canon USA	1,000 - 5,000	3.30%	1,000 - 5,000	3.56%
U. S. Department of Army & Air Force	1,000 - 5,000	3.30%	1,000 - 5,000	3.56%
Christopher Newport University	1,000 - 5,000	3.30%	500 - 999	0.89%
Ferguson Enterprise	500 - 999	0.83%	-	-
Hampton Newport News Community Services Board	500 - 999	0.83%	-	-
APAC Customer Services	-	-	500 - 999	0.89%
Siemen's Automotive Corporation	-	-	500 - 999	0.89%
Total	18,000 - 56,998	41.29%	17,500 - 52,997	41.82%

Source: Virginia Employment Commission

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									
Fund, Function, Activity and Elements	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
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	21	21	23	23	12	12	12	13	12	12
Human Resources	18	18	20	20	18	17	17	16	16	16
City Attorney	18	18	19	19	18	18	17	15	15	15
Management/Legislative Services	0	0	0	0	10	10	10	10	10	10
Internal Auditor	6	6	7	7	7	7	7	7	7	7
Commissioner of the Revenue	42	42	40	40	40	40	40	40	40	40
Real Estate Assessor	23	23	23	23	23	23	23	23	23	23
City Treasurer	34	34	35	35	34	34	34	34	34	34
Finance	18	18	19	19	19	19	19	19	19	19
Budget and Evaluation	7	7	7	7	7	7	7	7	7	5
Office of Self-Insurance	9	9	9	9	9	9	10	9	10	9
Purchasing	23	23	24	24	24	24	24	25	21	21
Information Technology	63	63	66	66	65	65	65	65	65	65
Board of Elections:										
Registrar	5	5	5	5	5	5	5	5	5	5
Total General Government Administration	299	299	309	309	303	302	302	300	296	293
Judicial administration:										
Courts:										
Circuit Courts	7	7	7	7	7	7	7	7	7	7
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	27	27	27
Court Services	2	2	2	2	2	2	2	2	6	6
Commonwealth's Attorney	50	50	51	47	41	41	41	41	41	41
Total Judicial Administration	92	92	93	89	83	83	83	83	87	87
Public Safety:										
Law Enforcement and Traffic Control:										
Police Department	593	593	578	578	564	539	532	531	526	525
Emergency Communications	-	-	4	4	4	4	4	4	4	3
Fire and Rescue Services:										
Fire Department	371	371	372	377	374	374	374	374	349	349
Correction and Detention:										
Sheriff	222	222	202	198	193	187	181	181	181	181
Adult Corrections	69	69	73	72	72	69	69	71	71	79
Juvenile Detention	143	143	168	171	178	178	178	177	110	100
Inspections:										
Codes Compliance	40	40	41	41	41	42	37	37	37	37
Total Public Safety	1,438	1,438	1,438	1,441	1,426	1,393	1,375	1,375	1,278	1,274
Public Works:										
Engineering	93	93	98	97	97	95	84	84	84	83
Project Services	-	-	-	-	-	1	6	6	6	6
Public Works Administration	170	170	167	167	159	151	148	146	142	142
Total Public Works	263	263	265	264	256	247	238	236	232	231
Welfare:										
Human Services	397	397	396	394	394	390	390	392	392	390
Office of Youth Development	-	-	9	9	9	9	9	9	9	6
Total Welfare	397	397	405	403	403	399	399	401	401	396
Parks and Library:										
Parks and Recreation	117	117	122	120	112	112	103	98	98	98
Parks and Recreation Revolving Fund	98	98	95	93	89	75	75	74	75	73
Library	61	61	67	67	63	62	59	58	58	58
Total Parks, Recreation and Library	276	276	284	280	264	249	237	230	231	229
Community Development:										
Planning and Community Development:										
Development	20	20	20	20	18	18	17	16	32	32
Planning	14	14	15	15	14	14	14	14	-	-
Total Community Development	34	34	35	35	32	32	31	30	32	32
Total General Fund	2,799	2,799	2,829	2,821	2,767	2,705	2,665	2,655	2,557	2,542
OTHER OPERATING FUNDS										
Public Utilities Fund	370	370	381	372	374	374	374	374	374	374
Vehicle & Equipment Services Fund	40	40	43	40	45	45	45	45	45	45
Solid Waste Revolving Fund	66	66	68	68	69	66	65	64	61	56
Wastewater Fund	87	87	76	76	78	77	80	80	80	77
Stormwater Management Fund	79	79	84	84	83	61	59	57	57	55
Pension Fund	7	7	7	7	7	7	7	6	5	5
Econimic and Industrial Authority	5	5	5	4	4	4	4	4	4	4
Parking Authority Fund	2	2	2	1	1	1	1	1	1	1
Law Library	2	2	2	1	1	1	1	1	1	1
Schools	4,296	4,293	4,420	4,468	4,446	4,389	4,281	4,260	4,301	4,241
Total Other Operarting Funds	4,954	4,951	5,088	5,121	5,108	5,025	4,917	4,892	4,929	4,859
TOTAL CITY EMPLOYEES	7,753	7,750	7,917	7,942	7,875	7,730	7,582	7,547	7,486	7,401

Source: City Adopted Budget.

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

	Fiscal Year									
	2010	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Function/Program										
General Government										
Retail Sales (Millions)	-	1,873	2,021	2,122	2,029	1,743	1,897	1,809	1,725	1,618
Police										
Calls for Service	251,346	179,975	219,634	230,065	222,939	222,939	221,047	251,777	219,445	230,289
Number of Offenses	23,905	30,787	23,269	24,415	25,336	24,263	27,076	27,645	27,500	27,157
Adult Arrests	15,093	15,496	17,477	18,592	19,288	19,082	18,846	17,409	18,465	18,146
Traffic Summonses	26,611	22,944	23,417	27,072	26,778	37,452	32,791	37,266	37,912	37,205
Traffic Accidents	2,510	3,068	3,484	3,825	3,620	3,341	3,452	3,600	3,648	3,524
Fire										
Fire Calls	-	12,718	12,569	6,134	12,022	11,702	12,024	13,552	12,802	11,648
EMS Calls	-	21,492	24,854	24,872	23,931	23,764	21,669	20,354	20,189	19,360
Structure Fires	-	517	430	484	381	285	314	306	293	347
Emergency Medical Service/Rescue*	21,845	-	-	-	-	-	-	-	-	-
Public Assistance*	1,483	-	-	-	-	-	-	-	-	-
Good Intent Calls*	1,457	-	-	-	-	-	-	-	-	-
False/Alarm / Alarm Malfunction*	1,428	-	-	-	-	-	-	-	-	-
Hazardous Conditions*	879	-	-	-	-	-	-	-	-	-
All Fires*	776	-	-	-	-	-	-	-	-	-
Explosions*	18	-	-	-	-	-	-	-	-	-
Weather Event/Other*	16	-	-	-	-	-	-	-	-	-
Sheriff										
City Jail Capacity	248	248	248	248	248	248	248	248	248	248
Codes Compliance										
Building Permits Issued	1,821	2,079	2,203	2,640	2,680	2,226	2,876	2,956	3,055	3,464
Residental Construction	198	91	130	192	257	308	180	344	366	508
Commercial Construction	37	53	59	65	69	101	70	31	58	35
Waterworks										
Gallons Delivered Per Day (Millions)	40	42	44	44	44	43	44	45	45	44
Meters Connected	130,700	130,725	129,509	124,677	123,857	128,090	127,377	126,434	125,488	124,762
Public Works										
Potholes Repaired	17,675	7,742	9,697	12,543	13,542	17,630	13,293	-	-	-
Streets Resurfaced (Miles)	9	10	11	8	22	21	18.50	-	-	-
Recyclables collected (Tons)	7,463	9,924	10,538	10,335	10,653	91,411	129,201	142,188	138,143	130,798
Parks and Recreation										
Park Vistors (Millions) (All Parks)	4	4	4	4	4	-	-	4	3	3
Celebration of lights vistors	91,665	103,341	103,400	111,786	95,510	109,223	95,510	91,594	89,496	108,957
Tourism visitor inquiries	79,610	108,412	129,495	141,774	141,300	148,766	136,167	127,970	110,526	98,452
Tourism web site visits	138,048	117,588	116,109	93,418	105,374	129,682	74,653	69,270	39,876	-
Vistor guides distributed	150,000	150,000	150,000	150,000	150,000	150,000	150,000	175,000	150,000	150,000
Library										
Circulation Transactions	847,367	767,131	715,613	688,569	668,092	625,276	593,077	635,812	613,330	695,226
Reference	140,071	129,196	126,182	139,285	122,543	110,053	115,234	124,929	127,476	125,942
Computer use	231,601	206,687	176,168	177,092	147,035	126,488	84,285	83,903	64,780	12,717
Program attendance	14,490	16,594	12,323	13,785	17,548	15,074	28,159	15,532	19,751	25,651
Visitor count	997,912	973,869	942,224	909,939	877,477	808,196	748,834	743,776	744,915	699,380
Meeting room use	1,218	1,223	1,330	1,140	1,029	1,029	1,520	-	-	-
Schools										
Average Daily Students	28,610	29,023	29,441	30,218	30,635	30,827	31,358	31,535	31,440	31,563

Sources: Various city departments.

*In 2009, the Fire Dept implemented a new incident reporting system which uses a national coding system that identifies multiple types of service calls.

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

	Fiscal Year									
	2010	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Function/Program										
Police										
Patrol Units	240	224	221	224	222	222	222	217	212	212
Boat	2	1	1	1	1	1	-	-	-	-
Fire										
Stations	11	10	10	10	10	10	10	9	9	9
Fire Trucks	23	25	24	22	20	19	17	16	15	11
Ambulances	17	17	16	16	16	16	18	18	18	16
Boats	2	2	2	2	1	1	1	-	-	-
Engineering										
Streetlights	19,645	19,616	20,411	19,791	19,760	18,660	19,507	19,186	19,075	18,845
Traffic Lights	253	253	258	256	256	255	251	249	237	230
Parks and Recreation										
Parks	35	35	32	32	19	19	19	19	19	19
Acreage	9,119	9,119	9,119	9,939	8,978	8,978	8,978	8,978	8,978	8,978
Athletic Fields	97	97	102	102	77	77	77	76	76	76
Mini-parks	3	3	3	4	6	6	6	6	6	6
Beach/Waterfront Areas	8	8	4	4	6	6	6	6	6	6
Boat Ramps	7	9	5	5	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	3
Tennis Courts (free)	57	65	56	57	60	60	60	60	60	60
Tennis Courts (pay)	24	20	20	24	20	20	20	20	20	20
Squares	3	3	2	5	3	3	3	3	3	3
Library										
Books	324,531	340,733	333,176	464,194	456,791	444,328	437,324	443,977	431,271	-
Paperbacks	21,276	21,173	20,382	24,758	23,443	19,047	17,174	16,053	15,619	-
Videos	4,320	6,470	5,186	7,035	7,499	6,953	5,473	5,262	4,770	-
Cassettes	2,605	3,536	3,481	9,050	10,195	9,591	9,459	9,234	7,589	-
Compact Disks	18,000	12,823	8,972	12,177	9,488	8,611	7,648	6,332	5,837	-
DVD'S	16,939	13,440	9,942	5,786	3,831	2,463	1,545	1,004	822	-
Microfilm	-	-	5,320	9,216	9,176	9,124	9,080	9,066	9,066	-
Microfiche	-	-	-	1,060	1,060	1,060	1,060	1,060	1,060	-
Waterworks										
Miles of Pipe	1,780	1,786	1,785	1,781	1,772	1,763	1,754	1,740	1,720	1,715
Fire Hydrants	10,700	10,650	10,129	9,944	9,843	9,704	9,595	9,287	9,104	8,978
Public Works										
Refuse Carts	76,607	76,729	76,725	76,202	76,491	76,029	71,164	1,556	1,565	-
Streets (miles)	505	504	504	503	503	502	502	501	499	494
Lanes (miles)	1,184	1,183	1,183	1,180	1,180	1,177	1,177	1,175	1,168	1,157
Sanitary sewers (miles)*	572	572	708	708	602	602	602	602	602	602
Storm sewers (miles)*	487	487	659	605	605	605	555	537	537	346
Pump Stations	179	179	175	171	170	-	-	-	-	-
Schools										
Early Childhood centers	4	4	4	4	4	4	3	3	3	3
Elementary schools	26	26	26	25	27	27	27	27	27	27
Middle schools	7	7	8	8	7	7	8	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	1	1	1

Sources: Various city departments.

* For 2009 Public Works consulted with Engineering to verify a more accurate accounting of the actual miles of sewers.

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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*

To the Honorable Members of City Council
City 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, 2010, and have issued our report thereon dated December 16, 2010. Our report includes a reference to 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 the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Other auditors audited the financial statements of the Peninsula Airport Commission, a component unit of the City. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness as defined above.

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*.

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

Cherry, Bekaert + Holland, LLP

Richmond, Virginia
December 16, 2010

Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Honorable Members of City Council
City 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The City's major federal programs are identified in the summary of auditor's 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 requirements 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 considered necessary in the circumstances. We believe that our audit provides 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2010-01.

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 grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that that there is a possibility material compliance with a type of compliance requirement of a federal program will not be prevented detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.described in the accompanying schedule of findings and questioned costs as item 2010-01. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on the response.

This report is intended for the information of 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, LLP

Richmond, Virginia
December 16, 2010

CITY OF NEWPORT NEWS, VIRGINIA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

Federal Granting Agency/Recipient State Agency	**CFDA Number**		**Federal Expenditures**
DEPARTMENT OF AGRICULTURE			
Pass-through Payments:			
Department of Social Services:			
State Administrative Matching Grants for Food Stamp Program (765-460-03; 765-452-13)	10.561		$ 2,959,176
ARRA-State Administrative Matching Grants for Food Stamp Program	10.561		118,287
Department of Agriculture:			
Food Distribution-Commodities	10.550		4,319
School Lunch Program-Commodities	10.555	$ 17,441	
Department of Education:			
School Breakfast Program (777-360-01; 777-360-03)	10.553	137,813	
Total Child Nutrition Cluster			155,254
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			
Direct Payments:			
Community Development Block Grant Program	14.218		2,020,615
Community Development Block Grants (B09-MC-51-0015)			
Community Development Block Grant ARRA Entitl Grants (B09-MY-51-0015)	14.253		155,631
Homelessness Prevention & Rapid Re-Housing (Recovery Act Funded)	14.257		303,942
Pass-through Payments:			
Department of Housing & Community Development:			
Neighborhood Stabilization Program (08-NSP-05)	14.239		467,582
Home Investment in Affordable Housing (M-09-MC-51-0202)	14.239		607,034
Economic Development Initiative Special Projects (B08-SP-VA-0709)	14.251		254,479
DEPARTMENT OF JUSTICE			
Direct Payments -			
Office of Justice Programs:			
Community Capacity Development Office	16.595		127,191
Community Prosecution and Project Safe Neighborhoods(140-309-01)	16.609		102,088
Edward Byrne Memorial Justice Assistance Grants (2009-DJ-BX-1148)	16.738		18,735
Recovery Act-Edward Byrne Memorial Justice Assistance Grants Grants to Units of Local Government (2009-SB-B9-1805)	16.804		896,265
Office of Juvenile Justice & Delinquency Prevention			
Drug-Free Communities Support Program Grants	16.729		29,645
Pass-through Payments:			
Department of Criminal Justice Service:			
Victims of Crime Act (VOCA) (140-390-01)	16.575		253,465
Drug Control & System improvement - Formula Grant (140-390-01)	16.579		195,609
Violence Against Women Formula Grants-ARRA (10-A6144VS09)	16.588		13,762
Byrne Justice Assistance Grants (140-390-01)	16.738		51,592
Office of Juvenile Justice & Delinquency Prevention			
Juvenile Accountability Incentive Block Grants (140-390-01)	16.523		35,282
Part E-Developing, Testing and Demo Prom New Prgms (2009-JL-FX-0291)	16.541		49,511
DEPARTMENT OF TRANSPORTATION			
Pass-through Payments:			
Va Department of Transportation:			
Highway Planning & Construction	20.205		501,111
Va Department of Motor Vehicles:			
State & Community Highway Safety (510-605-07)	20.607		22,412
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
Direct Payments -			
National Leadership Grants	45.312		2,540
Totals, page 1			$ 9,345,527

CITY OF NEWPORT NEWS, VIRGINIA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

Federal Granting Agency/Recipient State Agency	**CFDA Number**		**Federal Expenditures**
DEPARTMENT OF ENERGY			
Direct Payments:			
Energy Efficiency & Conservation Block Grant Prgm-ARRA (DE-SC0002677)	81.128		$ 55,474
DEPARTMENT OF EDUCATION			
Pass-through Payments:			
State Compensation Board:			
State Fiscal Stabilization Fund-Government Services, Recovery Act (157-307-18)	84.397		$ 3,510,752
DEPARTMENT OF HEALTH & HUMAN SERVICES			
Pass-through Payments:			
Department of Social Services:			
Promoting Safe and Stable Families (765-469-01)	93.556		21,016
Temporary Assistance for Needy Families(765-452-01; 765-460-03)	93.558		3,060,528
Refugee and Entrant Assistance (765-460-03; 765-491-02)	93.566		54,562
Low-Income Home Energy Assistance (765-460-03)	93.568		141,380
Child Care and Development Block Grant Act of 1990 (765-452-15)	93.575	1,621,793	
ARRA-Child Care and Development Block Grant	93.713	613,897	
Child Care and Development Mandatory Matching Funds (765-460-03)	93.596	2,197,643	
Total Child Care Cluster			4,433,333
Chafee Education and Training Vouchers Program (765-469-01)	93.599		40,412
Child Welfare Services State Grants (765-460-06)	93.645		9,813
Foster Care - Title IV-E (765-460-03; 765-460-06; 765-469-01)	93.658		1,635,323
ARRA - Foster Care - Title IV-E	93.658		119,200
Adoption Assistance (765-460-03; 765-469-03)	93.659		1,813,108
ARRA - Adoption Assistance	93.659		191,836
Social Services Block Grant (765-460-03; 765-468-02; 765-469-01)	93.667		987,551
Independent Living (765-460-03; 765-469-01)	93.674		81,027
State Children's Insurance Program (765-460-03)	93.767		116,666
Medical Assistance Program - Title XIX (765-460-03;)	93.778		1,477,468
Department of Health:			
Public Health Emergency Preparedness	93.069		1,145
SOCIAL SECURITY ADMINISTRATION			
Direct Payments:			
Social Security Incentive Program	96.006		$ 4,600
DEPARTMENT OF HOMELAND SECURITY			
Direct Payments:			
Assistance to Firefighters Grants (EMW-2009-FO-01700)	97.044		7,358
Port Security Grant Program-ARRA (2009-PU-RI-0335)	97.116		911,444
Pass-through Payments:			
Department of Emergency Management:			
Hazardous Materials Pub Sector Training & Planning (HME VA8031160)	20.703		20,000
Urban Areas Security Initiative (127-775-01)	97.008		55,069
Disaster Grants-Public Assistance (DR-1862)	97.036		170,492
Emergency Management Performance Grants	97.042		52,408
Port Security Grant Program	97.056		528,740
State Homeland Security Program (127-775-01)	97.073		620,375
Buffer Zone Protection Program	97.078		11,837
Totals, page 2			20,132,917
Grand Totals			$ 29,478,444

Note: This report does not include Newport News Public Schools (NNPS) and Peninsula Airport Commission (PAC) programs. NNPS has conducted a separate audit and that report is issued by NNPS. PAC was required to have a single audit for FY2010 that is issued separately.

CITY OF NEWPORT NEWS, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Newport News, Virginia (the City), except the Peninsula Airport Commission and the Newport News Public Schools, which have separate Single Audit Reports. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(2) Relationship to Basic Financial Statements

Federal expenditures are reported in the City's basic financial statements as follows:

	Federal expenditures
General Fund	$ 17,260,686
Special Revenue Funds	12,217,758
Total expenditures	$ 29,478,444

CITY OF NEWPORT NEWS

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

A. Summary of Auditors' Results

1. The type of report issued on the basic financial statements: **UNQUALIFIED OPINION**

2. Significant deficiencies in internal control disclosed by the audit of the financial statements**: NONE REPORTED**

3. Material weaknesses in internal control disclosed by the audit of financial statements: **NO**

4. Noncompliance, which is material to the financial statements: **NO**

5. Significant deficiencies in internal control over major programs: **YES**

6. Material weaknesses in internal control over major programs: **NO**

7. The type of report issued on compliance for major programs: **UNQUALIFIED OPINION**

8. Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **YES**

9. The programs tested as major programs were:

CFDA Number	Name of Federal Program or Cluster
10.561	Food Stamp Program
10.561	ARRA – Supplemental Nutrition Assistance16.804
16.804	ARRA – Byrne Justice Grants to Local Governments
84.397	Government Service Recovery Act
93.658	Foster Care
93.658	ARRA- Foster Care
93.659	Adoption Assistance
93.659	ARRA –Adoption Assistance
93.056	Port Security Grants
97.116	ARRA – Port Security Grants

10. Dollar threshold used to distinguish between type A and type B programs: $884,353

11. 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 Noted

C. Findings and Questioned Costs Relating to Federal Awards:

2010-01 Subrecipient Monitoring

Byrne Justice Grant – ARRA – CFDA 16.804

Condition:

Newport News did not complete preliminary requirements of the grant prior to releasing funds to subrecipients. Specific requirements of the grant were not applied to each subrecipient and an understanding of the requirements of the grant was not established at the outset of the grant. The City did not perform site visits to monitor the subrecipients use of the grant funds.

Criteria:

The Byrne Justice Grant – ARRA includes special requirements for recipients and subrecipients to comply with for certain compliance requirements which include:

- Activities Allowed/Allowable Costs – The pass through entity must ensure that the subrecipient has internal controls in place whereby all personnel whose activities are to be charged to the award will maintain timesheets to document hours worked for activities related to this award.

- Cash Management – The recipient is required to establish a trust fund account for funds receive and separately track and report Recovery Act Funds. Pass-through entities are to limit payments to subrecipients to immediate cash needs.

- Subrecipient Monitoring – The pass-through entity is required to verify that each subrecipient:

  1) was registered in the *Central Contractor Registration* (CCR),
  2) obtained a Dun and Bradstreet Data Universal Numbering System (DUNS) number,
  3) was updating CCR and DUNS information (as necessary) by performing periodic checks,
  4) had audits performed to OMB Circular A-133 standards if they received over $500,000 from federal sources, and
  5) had taken timely and appropriate corrective action on all audit findings prior to releasing any 2009-2010 Grant Funds.

  The recipient must document its policies and procedures for monitoring of sub-awards under the award. The recipient must perform monitoring tasks on subrecipient to ensure funds are being properly utilized.

Cause:

The City approached the treatment of this ARRA Byrne Grant Award as if it was the formula-based Department of Justice Byrne Grant associated with CFDA Number 16.738 and therefore did not properly apply the requirements of the grant to the subrecipients.

Effect:

The pass-through entity had the requirement to ensure the recipient had internal controls in place to ensure compliance with grant requirements. The City did not ensure that the recipient established a separate trust account for ARRA funds received or that the funds passed through were to meet immediate cash needs. The City did not review the specific requirements of subrecipients for participation in the use of the grant funds. Agreements for the use of the funds were not established prior to providing funds to the subrecipients and monitoring of the recipients use of the funds had not been performed.

Recommendation:

The City must review grant documents to ensure it has a full understanding of all requirements of the grant. Document all required activities and perform monitoring activities as required by the grant. Review of grant requirements will prevent future questioned costs and possible loss of future grant opportunities. The City should provide training to grant managers; to be sure they understand their responsibilities. The Grant Manager should review the requirements and ensure documentation is maintained as required by the Grant. The City must ensure that the funds returned by the subrecipient have been properly maintained.

Management Response:

The initial notification of the findings above was during a site visit by the State Policy Advisor from the Bureau of Justice Assistance (BJA), DOJ, in March 2010. The City immediately began addressing the issues identified during the site visit. A decision was made by the City Manager that any future JAG grants will be awarded to the Police Department; there will be no subrecipients.

Corrective Action Plan:

The Police Department, working in conjunction with Internal Audit and Finance, has taken the following actions:

1. A Memo of Understanding has been signed by the Hampton/Newport News Criminal Justice Agency outlining their requirements to comply with the conditions of the grant as it relates to subrecipients, ensuring internal controls are in place.
2. City staff members from Internal Audit and Police Department conducted a site visit to the Hampton/ Newport News Criminal Justice Agency to review proof of hours worked by employees funded under the grant.
3. The Hampton/Newport News Criminal Justice Agency returned $15,833 to the City of Newport News as reimbursement for a part-time position that was never filled.
4. The Community Services Board had internal controls in place that met the requirements of the grant.
5. The Grants Accountant, Finance Department, and the Fiscal Operations Unit Manager of the Police Department are planning to attend a 2011 Regional Finance Management Training Seminar conducted by the Department of Justice to ensure they have a full understanding of federal grant compliance methods.

Target Implementation Date:

All actions listed above are complete with the exception of #5. The seminar will be held in the spring of 2011.

D. Resolution of Prior Year Findings:

2009-01: Financial Reporting

In the prior year Newport News had not completed reconciliation of financial information in a timely manner causing delays in the preparation of financial statements.

In the current year, reconciliation of data has been timely. Policies and procedures have been developed to ensure full implementation of MUNIS. Continued refinement of the procedures will continue to enhance the financial reporting process.

2009-02 Allowable Costs-Adoption Assistance – Title IV-E; CFDA 93.659

In the prior year, the payments specified in the Adoption Assistance Agreements (AAA) to the adoptive parents did not agree with the amount actually paid by the Department. Overpayment errors were made due to inaccurate amounts used in the agreements.

Current year testing reflected that payments agreed with the agreements on file. Management's corrective action has been successful.

2009-03 Subrecipient Monitoring - Community Development Block Grant; CFDA 14.218

The City had not performed subrecipient monitoring of Newport News Redevelopment and Housing Authority (NNRHA).

The City has completed the subrecipient monitoring in the interim with no findings related to the funds passed through to NNRHA and is following up to ensure further subrecipient monitoring is done on a more timely basis. It has established a set schedule for future reviews, including ensuring all subrecipient monitoring of the Community Development Block Grant is completed.

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