

Comprehensive Annual
Financial Report
of the
City of Chesapeake, Virginia
for Fiscal Year Ended
June 30, 2006

Prepared by the
Chesapeake Department of Finance
Nancy C. Tracy, Director



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CITY OF CHESAPEAKE, VIRGINIA

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INTRODUCTORY SECTION



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December 22, 2006

To the Citizens of Chesapeake, Virginia:

The Comprehensive Annual Financial Report of the City of Chesapeake, Virginia (the City) for the fiscal year ended June 30, 2006, is hereby submitted. Responsibility for both accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the City and its component units. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The Comprehensive Annual Financial Report is presented in four sections:

- I. **Introductory Section**, which is unaudited, contains this transmittal letter, the City's organization chart, a list of principal elected and appointed officials, and a reproduction of the Certificate of Achievement for Excellence in Financial Reporting for the year ended June 30, 2005.
- II. **Financial Section** presents the independent auditors' report, management's discussion and analysis, basic financial statements, notes to basic financial statements, required supplementary information, and combining and individual fund schedules. Management's discussion and analysis provides an overview of the City's financial activities and results of operations. The basic financial statements include government-wide financial statements, fund financial statements, and certain discretely presented component unit financial statements. The government-wide statements, which report the City's governmental and business-type activities and its component units, are intended to present the City in a more corporate-style basis and provide a view of the big picture. The fund financial statements report major funds individually and nonmajor funds in the aggregate for governmental and proprietary funds. The notes to basic financial statements are an integral part of the Comprehensive Annual Financial Report and should be read in conjunction with the statements for a complete understanding of the information presented within them. Combining and individual fund schedules are also presented for major and nonmajor funds, as well as discretely presented component units that do not issue separate audited financial statements.

- III. Statistical Section**, which is unaudited, includes a number of tables that present various financial, economic, social, and demographic data, generally presented on a multi-year basis.
- IV. Compliance Section** includes reports on internal controls and compliance and a Schedule of Expenditures of Federal Awards. The City of Chesapeake is required to undergo an annual Single Audit in conformity with the provisions of the Single Audit Act Amendment of 1996 and *U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations*. Information related to this Single Audit, including the Schedule of Expenditures of Federal Awards, Notes to Schedule of Expenditures of Federal Awards, Schedule of Findings, Questioned Costs, and Management's Response, and independent auditors' reports on internal control and compliance with applicable laws and regulations are included in this section.

The Reporting Entity and Its Services

The present City of Chesapeake was formed on January 1, 1963 by the merger of Norfolk County and the City of South Norfolk. This merger created the second largest city in the Commonwealth of Virginia with 353 square miles, surrounded by the cities of Norfolk, Portsmouth, Virginia Beach, Suffolk, and the North Carolina state-line.

The City of Chesapeake derives its governing authority from a charter granted by the General Assembly of Virginia. The City is organized under the Council-Manager form of government. The governing body, the City Council, formulates policies for the administration of the City.

In accordance with the requirements of the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the primary government (the City of Chesapeake), as well as its component units, which are legally separate organizations for which the City Council is financially accountable. Financial accountability was determined on the basis of City Council's selection of governing authority, designation of management, ability to influence operations, and accountability for fiscal matters. Five (5) component units are discretely presented and are reported in two separate columns in the government-wide financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position and results of operations from those of the primary government. Discretely presented component units qualifying for inclusion in this report are Chesapeake Public Schools, Chesapeake Mosquito Control Commission, Economic Development Authority of the City of Chesapeake (the EDA), formerly known as the Industrial Development Authority, Chesapeake Port Authority, and Chesapeake Airport Authority. The activities of one component unit, CSB of Chesapeake, Inc. (CSBC, Inc.), is considered to be so intertwined with the City's activities that they are in substance part of the City's operations. Therefore, CSBC, Inc. is blended with the City's governmental activities.

The City provides a full range of general governmental services for its citizens. These services include police and fire protection, collection and disposal of refuse, water and sewer services, parks and recreation, libraries, and construction and maintenance of highways, streets, and other infrastructure. Other services provided include public education in grades kindergarten through twelfth, public health and social services, planning and zoning, mental health assistance, agricultural services, judicial activities, and general administrative services.

Cities in Virginia have jurisdiction over the entire area within their boundaries and operate independently of a county government since they are located outside any county boundaries. There are no overlapping jurisdictions, and consequently are not subject to overlapping debt or taxation.

Economic Condition and Outlook

Chesapeake's economy has remained relatively strong compared to other areas in the country, primarily because its diversity shields it from dramatic shifts caused by changes in the national or global economies. Retail growth continues to be a strong economic indicator for the City. Retail sales exceeded \$3 billion, making Chesapeake the fastest growing retail market in Hampton Roads. In past years, the City's retail sector expanded in relation to significant residential growth. Recently, as the rate of residential expansion has become more controlled, retail growth has continued because of the City's attractive demographics, strong business base, and a proactive marketing approach targeting unique national and local retailers.

Local unemployment for the City and State remains below the national rate. For the fiscal year ended June 30, 2006, the average unemployment rate was 3.2% in Chesapeake and 3.2% in Virginia, compared to 4.8% in the U.S.

Chesapeake is consistently ranked as one of the country's best places for international business investment. The City is home to the largest concentration of the region's foreign businesses, with over 80 firms representing at least 20 countries. Chesapeake is recognized as one of the most successful U.S. cities for attracting business investment from around the world. The City has one of the largest concentrations of international business on the U.S. East Coast with companies from Japan, Brazil, and Germany, to name a few.

During calendar year 2005, nearly 2,100 new jobs were created in Chesapeake and over \$90 million of new non-retail capital investment were recorded. New job creation exceeded 1,700 new jobs for eight of the past ten years and continues to outperform the nation in job growth. The City has recorded more than \$90 million in capital investment for nine of the past ten years.

The hospitality industry continues to play a major role in Chesapeake's economic success and contributes more than \$50 million to the local economy, according to the Virginia Tourism Corporation. Fiscal year 2006 saw the opening of over 800 new hotel rooms in the Greenbrier and Western Branch sections of the City.

The 2005-2006 fiscal year includes the following economic development highlights:

- In the fall of 2005, the Economic Development Authority opened Oakbrooke Business and Technology Center, a new 120 acre business park. Most of Phase One sold out primarily for speculative development.
- The Capital Group opened a new 250-job financial services center making a \$13.7 million capital investment in the new 50,000 square foot office building.
- A proposal was accepted for the redevelopment of the Gateway Site, at Poindexter and

Bainbridge, into a five acre mixed use project that will bring new business and a new type of residential development to the South Norfolk, or “SoNo” community.

- The redevelopment strategy for South Norfolk, created by its residents in partnership with the City, was recognized by the Virginia Economic Developers Association as the winner of its inaugural Community Economic Development Award for excellence in community development and involvement.
- Construction and partial opening of a new 200 acre retail center occurred, bringing new retail opportunities to southern Chesapeake, including Home Depot and Target.
- Belharbour Station at SoNo, a \$200 million waterfront project with office, residential, retail, marina, and other recreational attractions was announced.

The City Council continues to stress actively marketing Chesapeake as the location of choice for domestic and international business projects. The City’s marketing plans include several joint initiatives with regional and state economic development partners to accomplish these goals.

Major Initiatives

For the Year. City Council serves the citizens by striving to provide efficient City services, quality education, and balanced and planned development while maintaining a fiscally sound government. Management and City Council continue to work proactively to effectively manage resources and increasing costs.

During fiscal year 2006 the City achieved the following accomplishments:

- Opened the new Lake Gaston Water Treatment Plant in April 2006. The new plant provides an additional 7 million gallons of drinking water per day to Chesapeake.
- Construction continues on a new high school to serve the southern Chesapeake (Grassfield) area of the City. The school is scheduled to open in the fall of 2007 and will have a capacity of approximately 2,400 students.
- Expanded E-911 communications services with the implementation of Emergency Medical Dispatching capabilities. This allows dispatchers to begin providing life-saving instruction to callers while medical help is in route.
- Dedication of the \$14.2 million Cedar Road project. The new road was named the Moses Grandy Trail in honor of an 18th century slave who worked on the Dismal Swamp Canal. The road greatly improves travel from Dominion Boulevard to Deep Creek and provides relief for residents on the old Cedar Road.
- Completion of the Dismal Swamp Canal Trail. An 8.5 mile section of the former Virginia State Rt. 17 is now a multi-use trail open to bicycling, walking, running, horseback riding, and boating.

For the Future. Chesapeake’s future as a desirable community in which to live and work shows promise and opportunity. Its central location, availability of land, and good transportation system will

continue to contribute to Chesapeake's attractiveness as a well-balanced commercial center. The City's close port proximity and strong employee pool continue to encourage a strong international business presence. As a result of these qualities, the Chesapeake civilian labor force has grown from 96,292 in 2000 per the U.S Census Bureau to 114,416 in June 2006 per the Virginia Employment Commission, an increase of 15.8%.

The City is continuing its efforts to manage growth to achieve a balance between employment opportunities, an expanding tax base, housing that meets the needs of a diverse population, and a healthy natural environment. The City plans to continue to make the best use of land resources and infrastructure so that growth will include revitalization and redevelopment, as well as development of new areas in a manner that will preserve rural, historic, and environmental assets. Such efforts have helped to better manage the City's annual growth rate from a high of 4.73% between 1986 and 1987 to an annual growth rate of 1.71% between 2005 and 2006. The overall target for the City is to accommodate an annual population growth of between 1.5% and 2.5% which is deemed to be a reasonable amount of growth that fairly balances the interests of current City residents with future City residents.

One major tool used to manage growth is the City's Comprehensive Plan adopted in March of 2005. The Forward Chesapeake 2026 Comprehensive Plan is a series of documents that establish policies regarding the future development of the City. It establishes a vision for the future and identifies a strategy for achieving that vision, based on community input and values. Chesapeake's Comprehensive Plan includes an overall text policy document, a Land Use Plan, and a Master Transportation Plan. Implementation strategies are a component of the Plan, such as the coordination of capital improvements and other resources to achieve the Plan's goals. Major themes contained in the Plan's policies are growth management, community revitalization, and the maintenance of a high standard for community facilities and services.

The City Council continues to uphold its dedication to "The City That Cares" philosophy by reducing the property tax rate for homeowners. In May 2006, City Council voted to reduce the tax rate by \$.12 per \$100 of assessed value bringing the rate down to \$1.09 per \$100 of assessed value effective July 2006. This will provide a balance between the taxpayers' burden and the City's resource requirements.

Financial Information

City management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Single Audit. As a recipient of federal and state financial assistance, the City is also responsible for

establishing and maintaining an adequate internal control structure to ensure and document compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management and the audit services staff of the City. As part of the City's Single Audit, tests were made to determine the adequacy of internal controls and of its compliance with applicable laws and regulations, including that portion related to federal awards. Although this testing is not sufficient to support an opinion on the City's internal control system or its compliance with laws, regulations, contracts, and grant agreements, the audit for the fiscal year ended June 30, 2006 disclosed no internal control material weaknesses or material violations of applicable laws and regulations.

Budgetary Controls. Budgetary controls are maintained to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Activities of the General Fund, certain Special Revenue Funds, Debt Service Fund, Enterprise Funds, Chesapeake Mosquito Control Commission – Component Unit, and Public Schools – Component Unit are included in the annual appropriated budget. Project-length financial plans are adopted for the Capital Projects Funds, including the Public Schools – Component Unit Construction Fund, the Grants Fund, and the Community Development Fund. The legal level of budgetary control (level at which expenditures cannot exceed the appropriated amount) takes place at the fund level. City Council may authorize supplemental appropriations based on the availability of financial resources. The City Manager is authorized by City Council to make transfers between funds. Any revisions that alter total appropriations must be approved by City Council. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Although encumbered amounts lapse at year-end, the outstanding encumbrances are reviewed and generally reappropriated as part of the following year's budget provided there is availability of funding at year-end.

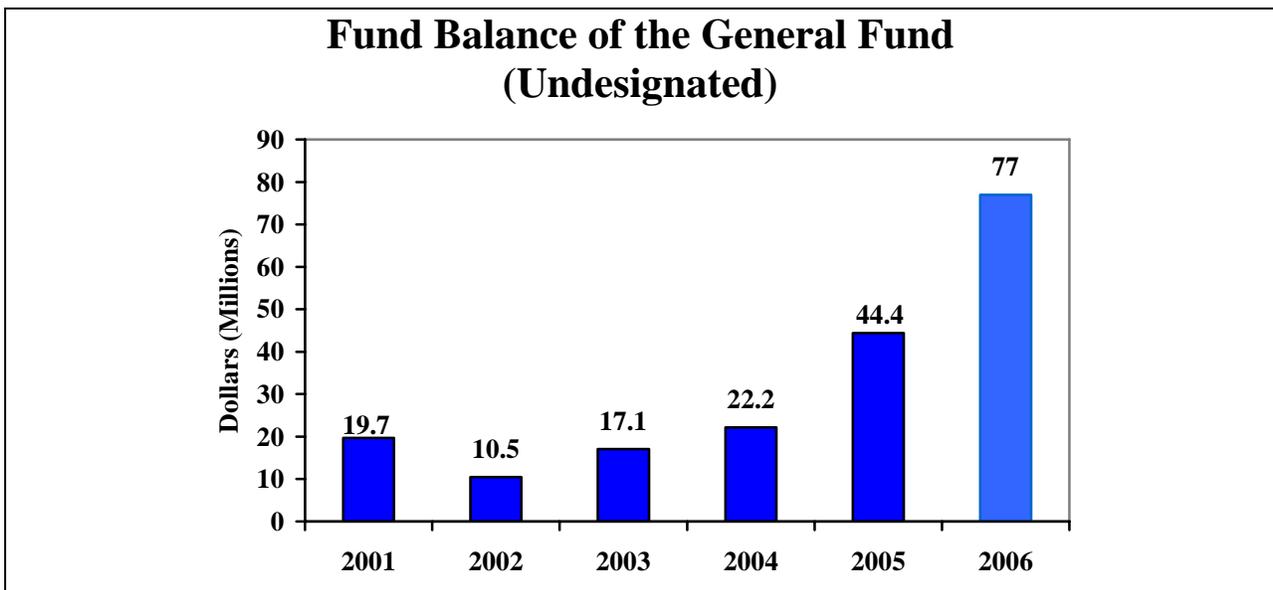
Fund Structure. The City uses individual funds to maintain its financial records. These funds can be grouped into three broad classifications: governmental funds, proprietary funds, and a fiduciary fund.

- **Governmental Funds** - The City's governmental funds include the General Fund, the Debt Service Fund, the Capital Projects Fund, the Special Revenue Funds, and the Permanent Funds. The General Fund is the main operating fund of the City, and is used to account for all financial resources except those required to be accounted for in another fund. The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. The Capital Projects Fund is used to account for proceeds from public improvement bond issues, local funding sources and construction grants, and expenditures relating to capital projects. When capital projects are completed, the costs of the improvements are transferred from construction in progress to the appropriate capital asset category. Special revenue funds have been established for programs that the City needs to track separately. There are eleven special revenue funds for specific purposes, such as the Grants Fund, Virginia Public Assistance Fund, and Interagency Consortium Fund. In addition, CSBC, Inc., a blended component unit, is reported as a special revenue fund of the City. Permanent funds report resources that are legally restricted to the extent that only earnings, and not principal, may be used for specific purposes.

- **Proprietary Funds** - Proprietary funds are classified as enterprise funds or internal service funds. An enterprise fund is used to report an activity for which fees are charged to external users for goods or services. An internal service fund is used to centralize certain services and then allocate the cost of these services within the government. The City maintains separate enterprise funds for six distinct activities: Public Utilities, Chesapeake Expressway, Stormwater Management, Northwest River Park, Jordan Bridge, and Recreation. The City uses three internal service funds: Information Technology, City Garage, and Self-Insurance.
- **Fiduciary Fund** - The fiduciary fund is used to account for assets held by the City as trustee, as a custodian, or in a fiduciary capacity.

Additional information and analysis on the City’s fiscal activity can be found in the Management’s Discussion and Analysis section of this report.

Fund Balance of General Fund. 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 not only provides a reserve for emergencies, but it is a positive factor when the rating agencies consider bond ratings for the City.



The City Charter requires that a minimum of six percent of total General Fund revenues must be set aside in the annual operating budget for emergency use and cash flow needs throughout the fiscal year. The June 30, 2006 designation for cash flow emergencies totaled \$28,188,802. In fiscal year 1999, City Council established an additional designation of fund balance for operating emergencies to be set at a minimum of five percent of total General Fund revenues. As of June 30, 2006, the designation for operating emergencies totaled \$23,490,669. In addition to the designation for cash

flow emergencies and designation for operating emergencies, \$21,237,155 has been set aside in various reserves and other designations.

The undesignated General Fund fund balance, which represents available current financial resources, totaled \$77,023,045 at June 30, 2006, an increase of \$32,629,348 from the prior year. Key factors that contributed to this increase were stronger than expected revenues coupled with department managers' efforts to reduce planned spending. 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, handle unforeseen emergencies, and retain its sound financial position.

Summary of Changes in Undesignated Fund Balance of the General Fund			
(in Millions)			
Undesignated fund balance at June 30, 2005			\$ 44.4
Revenues		\$ 471.9	
Expenditures:			
Current	\$ 359.9		
Other financing uses, net	<u>62.9</u>	(422.8)	
Increase in reserves and designations		<u>(16.5)</u>	
Increase in undesignated fund balance			<u>32.6</u>
Undesignated fund balance at June 30, 2006			<u>\$ 77.0</u>

Cash Management. The City charter provides that the elected City Treasurer is the custodian of City funds. For the fiscal year ended June 30, 2006, cash temporarily idle during the year was invested in demand deposits (3.14%), repurchase agreements ranging from one to five days (0.79%), and in the following instruments with an average maturity of 128 days: Virginia banks' certificates of deposit covered by federal depository insurance or collateralized under the Virginia Security for Public Deposits Act (21.58%), U. S. Government and Agencies (23.39%), commercial paper which has obtained ratings no lower than A-1 by Standard & Poor's and no lower than P-1 by Moody's (24.23%), short-term corporate notes of domestic corporations (2.14%), the Local Government Investment Pool "LGIP" (11.13%), Evergreen U.S. Treasury Money Market and TowneBank Money Market Deposit (0.43%), and the Virginia State Non-Arbitrage Program "SNAP" (13.6%). Investments are held to maturity under usual circumstances.

The State Treasurer manages the LGIP and invests funds according to the Virginia Treasury Board's Investment Guidelines for the Commonwealth's General Fund Monies. These guidelines include third-party delivery of repurchase collateral and other professional safekeeping arrangements. The Virginia Treasury Board established the Virginia SNAP program and provides general supervision over SNAP. Established March 1, 1989, the SNAP helps local governments comply with certain arbitrage rebate requirements of the Internal Revenue Code and provides for the pooling of bond proceeds for temporary investment pending expenditure. Both the SNAP and the LGIP invest only in money market and fixed income instruments of the type permitted by Virginia statute for use by local

governments.

The average earnings yield on the investments for the year was 3.98%, which compares favorably with the average earnings yield of 4.18% for the U.S. Treasury three-month bill. The City of Chesapeake primary government earned revenues of \$10,282,643 on investments for the year ended June 30, 2006.

The breakdown of the interest earnings is as follows:

Interest on Invested Funds	
Fund Type	Interest Earned
General Fund	\$ 2,910,811
Debt Service Fund	1,311,352
Capital Projects Fund	3,055,721
Special Revenue and Permanent Funds	350,146
Enterprise Funds	1,970,613
Internal Service Funds	684,000
Total Interest Earned	\$ 10,282,643

The City's Comprehensive Investment Policy has been established according to the Governmental Accounting Standards Board (GASB) guidelines with the goal that investments are invested to insure safety and repayment of principal, to provide needed liquidity, and to provide the highest investment return with the maximum security. See Note 2 in Notes to Basic Financial Statements for more information on the City's investments.

Self-Insurance. The City has a self-insurance program with excess coverage for general, auto liability, and workers' compensation. As part of this plan, resources are being accumulated in the Self-Insurance Fund to meet potential losses. In addition, various risk control techniques, including support for accident review and investigation of motor vehicle accidents, are ongoing. See Notes to Basic Financial Statements (Note 15, page 114) for further information on the self-insurance program.

Other Information

Independent Audit. The City's Charter, SEC 11.06, *Annual Audit* requires an audit by independent certified public accountants. The accounting firm of KPMG LLP was selected by the City's Audit Selection Committee. In addition to meeting the requirements set forth in the City's Charter, the audit also was designed to meet the requirements of the federal Single Audit Act Amendment of 1996 and related OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. The Independent Auditors' Report on the Basic Financial Statements is included in the Financial Section of this report. The auditors' reports on internal controls and compliance can be found in the Compliance Section of this report.

Awards. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005. This was the 24th consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report 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.

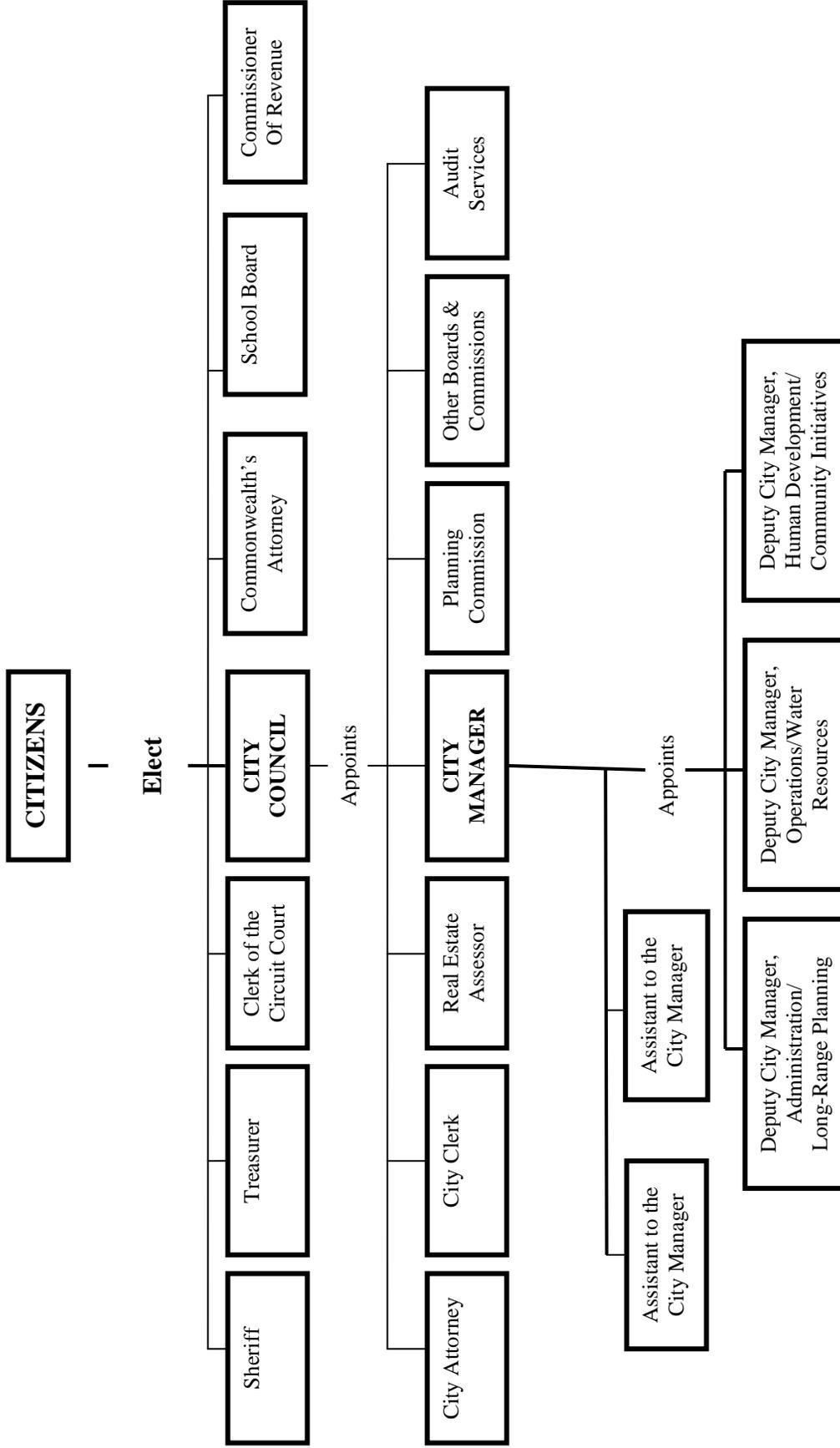
Acknowledgments. The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the Department has our sincere appreciation for the contributions made in the preparation of this report. Also deserving special commendation are all of the skilled, talented, and dedicated employees of the City of Chesapeake - the workforce of the City. We also express our sincere appreciation to the Mayor and City Council for their leadership, guidance, and establishment of policies for managing financial operations in a sound and progressive manner.

Very truly yours,

/S/
Anne F. Odell
Acting City Manager

/S/
Nancy C. Tracy
Director of Finance

Organization Chart



CITY OF CHESAPEAKE, VIRGINIA

City Officials
June 30, 2006

City Council

Dalton S. Edge Mayor
John M. de Triquet M.D. Vice Mayor

Walton P. Burkheimer, Jr.
C. E. “Cliff” Hayes, Jr.
Dr. Alan P. Krasnoff
W. Joe Newman
Dwight M. Parker
S. Z. “Debbie” Ritter
Patricia Pritchard Willis

Other Officials

Anne F. Odell..... Acting City Manager
Amar Dwarkanath.....Deputy City Manager, Operations/Water Resources
Dr. Wanda Barnard-Bailey ... Deputy City Manager, Human Development/Community Initiatives
Mary Ann SaundersAssistant to the City Manager
Anna D’Antonio.....Assistant to the City Manager
Dolores A. MooreCity Clerk
Ronald S. Hallman City Attorney
V. Thomas Forehand, Jr..... Chief Judge, Circuit Court
S. Bernard Goodwyn, Frederick H. Creekmore
Bruce Kushner and Randall D. Smith..... Judges, Circuit Court
Faye Mitchell Clerk of the Circuit Court
Colon H. Whitehurst Chief Judge, General District Court
Robert R. Carter, David L. Williams and
Timothy S. WrightJudges, General District Court
Phyllis HamricClerk of the General District Court
Rufus A. BanksChief Judge, Juvenile and Domestic Relations Court
Larry D. Willis, Eileen A. OldsJudges, Juvenile and Domestic Relations Court
Lorraine Throckmorton.....Clerk of the Juvenile and Domestic Relations Court
Nancy G. Parr..... Commonwealth’s Attorney
Nancy C. Tracy Director of Finance
Dr. Betty Jean MeyerBudget Director
Ray A. Conner Commissioner of the Revenue
Barbara O. Carraway City Treasurer
John R. Newhart..... Sheriff

CITY OF CHESAPEAKE, VIRGINIA

City Officials, Continued
June 30, 2006

R. Stephen Best, Sr. Fire Chief
Patrick M. Hughes Director of Neighborhood Services
Watson Lawrence..... Director of Agriculture
Patricia C. Biegler..... Director of Public Works
James K. Walski..... Director of Public Utilities
Margaret P. Stillman Director of Libraries and Research Services
Brent R. Neilson Director of Planning
William L. Rice..... Real Estate Assessor
Dania M. Karloff..... Director of Information Technology
Robert A. Clifton Director of Parks and Recreation
Warren D. Harris..... Director of Economic Development
Mark S. Cox Director of Public Communications
Colonel Richard A. Justice Chief of Police
Mary J. Bullock..... Director of Human Resources
Robert L. Copeland..... Director of Intergovernmental Affairs, Youth and Family Services
Candace B. Waller Executive Director of Community Services Board
Dr. Nancy M. Welch Director of Health
Maury B. Brickhouse Director of Court Services
William M. Broome Director of General Services
Jay Poole City Auditor
Doris "Cookie" Palacios Director of Human Services

School Board

Thomas L. Mercer, Sr. Chairman
Dr. Shelia G. Hill Vice Chairman

Barbara B. Head
Brenda J. Johnson
Jay Leftwich
Harry A. Murphy
Dr. Ella P. Ward
Ann R. Wiggins
Michael J. Woods

CITY OF CHESAPEAKE, VIRGINIA

City Officials, Continued
June 30, 2006

Other School Board Officials

Dr. W. Randolph Nichols..... Superintendent
Dr. William E. Russell..... Deputy Superintendent
Dr. Patricia L. Powers..... Assistant Superintendent for Curriculum and Instruction
Fred Cabler Assistant Superintendent for Budget and Finance
Dr. James T. Roberts..... Assistant Superintendent for Personnel and Support Services
Steven M. Gilbert..... Assistant Superintendent for Operations
Edward L. Hughes Administrative Assistant to Superintendent and Clerk of the Board

Supplemental Listing

Lee Lowder Secretary/Treasurer, Chesapeake Airport Authority
Warren D. Harris..... Executive Director, Chesapeake Port Authority
Warren D. Harris..... Executive Secretary, Economic Development Authority
Brenda Willis Executive Director, Chesapeake Redevelopment and Housing
Doreen Quane Director of Administration and Finance,
Chesapeake Redevelopment and Housing
Gene Payne Director, Chesapeake Mosquito Control Commission

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Chesapeake,
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

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



Carla E. Perry

President

Jeffrey R. Emer

Executive Director

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FINANCIAL SECTION



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KPMG LLP
2100 Dominion Tower
999 Waterside Drive
Norfolk, VA 23510

Independent Auditors' Report

The Honorable Members of City Council
City of Chesapeake, 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 Chesapeake, Virginia (the City) as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City of Chesapeake Economic Development Authority or the Chesapeake Airport Authority, which together represent 27% and 2%, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Chesapeake Economic Development Authority or the Chesapeake Airport Authority, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns* (specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2006 on our consideration of the City's internal control over financial reporting and on 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 included at schedules L-1 through L-3 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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 information listed as supplementary information and compliance section information in the accompanying table of contents, including the schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on them.

KPMG LLP

December 22, 2006

Management's Discussion and Analysis - (MD&A)



CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis
Year ended June 30, 2006

The discussion and analysis of the City of Chesapeake's (the City's) financial performance provides an overall review of the City's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2006

- The assets of the City of Chesapeake, on a government-wide basis excluding component units, exceeded its liabilities at the close of fiscal year 2006 by \$1.182 billion (net assets). Of this amount, \$176.8 million is unrestricted.
- The City's total net assets increased by \$115.3 million from the prior year. The governmental net assets increased \$102.2 million and business-type net assets increased by \$13.1 million. Approximately \$38 million of this increase is attributable to the donation of infrastructure assets to the City, for both governmental and business-type purposes.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$268.2 million, an increase of \$62.1 million from the prior year. Approximately 68% or \$182.5 million of this amount is unreserved.
- The General Fund, on a current financial resources basis, reported an excess of revenues and other financing sources over expenditures and other financing uses of \$49.1 million, primarily due to higher than expected tax revenues, coupled with restrained spending efforts by departmental managers. Transfers for debt service were lower than expected due to cash funding of some projects and the use of dedicated revenue streams for certain borrowings, thus contributing to the General Fund's positive results.
- At the end of the current fiscal year, undesignated fund balance for the General Fund was \$77 million, or 21.4% of total General Fund expenditures (including payments to Chesapeake Public Schools).
- The City's total bonded debt increased by \$11.7 million (2.2%) during the current fiscal year. The scheduled repayment of principal of \$31.1 million largely offset the \$42.8 million in new debt issued during fiscal year 2006.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2006

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The basic financial statements include statements that present different views of the City:

- The first two statements presented are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's *overall* financial status.
- The next 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.
 - The *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 and sewer) system.
 - The *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 final two statements are *other discretely presented component units'* financial statements that provide financial information about the City's discretely presented component units, other than the Chesapeake Public Schools, which are aggregated on the *government-wide financial statements*.

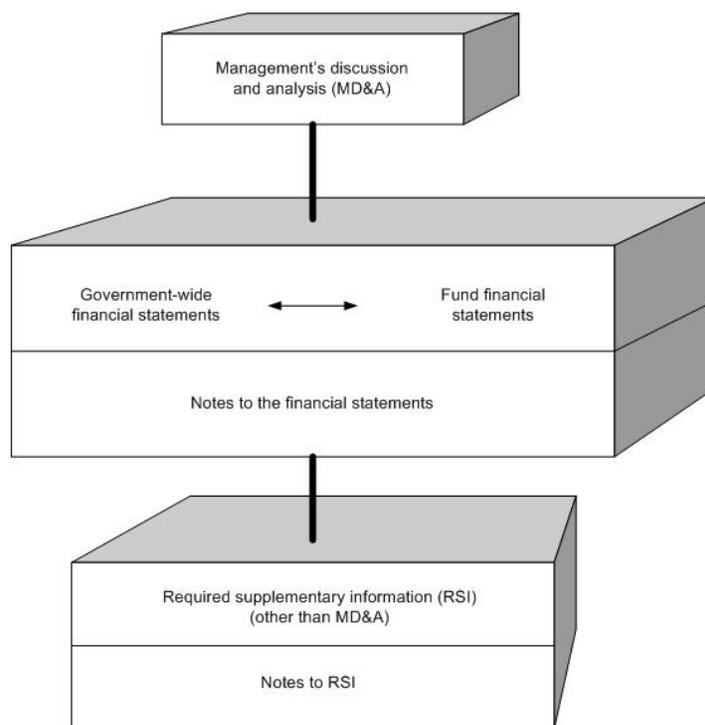
The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2006

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 Chesapeake's Financial Statements



The City's financial statements present two kinds of statements each with a different snapshot of the City's finances. 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, the Statement of Net Assets and the Statement of Activities, report information about the City of Chesapeake as a whole using accounting methods similar to those used by private-sector companies. These statements include *all* of the government's assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2006

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, public welfare, parks and recreation departments, and general administration. Property taxes, other taxes, and state and federal grants finance most of these activities.
- *Business-type activities* – The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer system, stormwater system, and Chesapeake Expressway toll road are included here.
- *Component units* – The City includes five discretely presented component units, separate legal entities, in its report – the Chesapeake Public Schools, the Chesapeake Mosquito Control Commission, the Economic Development Authority of the City of Chesapeake, the Chesapeake Port Authority, and the Chesapeake Airport Authority. Although legally separate, these component units are important because the City is financially accountable for them and provides operating funding.

Fund 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.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2006

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. The City includes in its governmental fund statements a blended component unit, CSB of Chesapeake, Inc. because it provides services entirely for the benefit of the City.
- *Proprietary funds* – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, with the exception of the internal service funds' gain or loss allocation, but they provide more detail and additional information, such as cash flows. The City also uses internal service funds (another kind of proprietary fund) to report activities that provide supplies and services for the City's other programs and activities – such as the City Garage Fund and the Information Technology Fund.
- *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. 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 a 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).

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2006

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets (assets exceeding liabilities) may serve over time as a useful indicator of a government's financial position. In the case of the City of Chesapeake, assets exceeded liabilities by \$1.182 billion at the close of fiscal year 2006. By far the largest portion of the City's net assets (75%) reflects its investment in capital assets (e.g., land, buildings, equipment, and 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.

Statement of Net Assets

The following table reflects the condensed Net Assets:

Table 1
Summary of Net Assets
June 30, 2006 and 2005
(in millions)

	Governmental		Business-Type		Total	
	Activities		Activities		Primary Government	
	2006	2005	2006	2005	2006	2005
Assets						
Current and other assets	\$ 332.7	260.3	67.3	72.0	400.0	332.3
Capital assets	1,066.4	1,019.9	477.6	466.8	1,544.0	1,486.7
Total assets	\$ 1,399.1	1,280.2	544.9	538.8	1,944.0	1,819.0
Liabilities						
Current and other liabilities	\$ 27.4	23.0	7.0	8.1	34.4	31.1
Long-term liabilities	500.4	488.2	226.9	232.8	727.3	721.0
Total liabilities	527.8	511.2	233.9	240.9	761.7	752.1
Net assets						
Invested in capital assets, net of related debt	649.8	588.7	254.3	249.6	904.1	838.3
Restricted net assets	46.3	21.9	55.1	46.3	101.4	68.2
Unrestricted net assets	175.2	158.4	1.6	2.0	176.8	160.4
Total net assets	871.3	769.0	311.0	297.9	1,182.3	1,066.9
Total liabilities and net assets	\$ 1,399.1	1,280.2	544.9	538.8	1,944.0	1,819.0

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2006

Approximately 9% of the City's net assets are subject to external restrictions. The remaining balance of *unrestricted net assets* (\$176.8 million or 15%) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the primary government as a whole as well as for its separate governmental and business-type activities. The same was true for fiscal year 2005.

There was an increase of \$13.1 million in total net assets in the business-type activities, largely as a result of donated infrastructure assets.

The City's total net assets increased by \$115.3 million during the fiscal year. The increase in revenues (11%) exceeded the increase in expenses (5%) for this period.

Governmental Activities

Net assets of the City's governmental activities increased by \$102.2 million, as shown on the Statement of Activities, accounting for 89% of the total growth in net assets of the City. This increase was largely due to \$43 million in increased tax revenues and \$27 million in capital grants and contributions supporting the Public Works function, which includes roads. Total donated land and infrastructure assets were \$27.5 million. Expenses increased by 5%, including increases in certain functional areas, primarily education expenses and public safety. Revenues for governmental activities increased 11% over the prior year.

Business-type Activities

The net assets of the City's business-type activities increased from \$297.9 million to \$311.1 million. These resources cannot be used to make up for any net asset deficit in governmental activities. The City generally can only use these net assets to finance the continuing operations of its enterprise operations, which include the Public Utilities, Stormwater Management, and the Chesapeake Expressway enterprise funds. A key element of this increase was due to deeded and donated assets from developers in the amount of \$10.9 million. A water rate increase went into effect July 1, 2005, raising the minimum bi-monthly bill from \$29 to \$31 and the excess consumption rate from \$2.875 to \$3.225. Expenses increased approximately 3%, due to operating costs associated with the new Lake Gaston plant coming on line during the year.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2006

Statement of Activities

The following table shows the revenue and expenses of the governmental and business-type activities:

Table 2
Changes in Net Assets
Years Ended June 30, 2006 and 2005
(in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues:						
Charges for services	\$ 21.2	21.5	56.7	53.7	77.9	75.2
Operating grants and contributions	90.1	77.7	1.9	1.2	92.0	78.9
Capital grants and contributions	27.8	35.6	10.9	8.1	38.7	43.7
General revenues:						
Property taxes	260.1	224.8	-	-	260.1	224.8
Other taxes	119.7	111.6	-	-	119.7	111.6
Unrestricted investment earnings	8.3	3.1	0.1	0.2	8.4	3.3
Other	3.9	1.0	-	-	3.9	1.0
Capital grants and contributions not restricted to specific programs	33.8	31.8	-	-	33.8	31.8
Total revenues	564.9	507.1	69.6	63.2	634.5	570.3
Expenses						
General government	101.3	102.2	-	-	101.3	102.2
Public safety	78.0	71.9	-	-	78.0	71.9
Public works	40.3	40.2	-	-	40.3	40.2
Parks	6.4	4.0	-	-	6.4	4.0
Public welfare	38.7	37.6	-	-	38.7	37.6
Education	157.3	143.9	-	-	157.3	143.9
Public Utilities	-	-	41.6	40.0	41.6	40.0
Chesapeake Expressway	-	-	9.4	8.8	9.4	8.8
Stormwater Management	-	-	3.2	3.6	3.2	3.6
Depreciation - unallocated	21.4	21.0	-	-	21.4	21.0
Other	-	-	1.8	1.8	1.8	1.8
Interest on long-term debt	19.8	19.2	-	-	19.8	19.2
Total expenses	463.2	440.0	56.0	54.2	519.2	494.2
Excess before transfers	101.7	67.1	13.6	9.0	115.3	76.1
Transfers	0.5	0.8	(0.5)	(0.8)	-	-
Increase in net assets	102.2	67.9	13.1	8.2	115.3	76.1
Net assets - beginning	769.0	701.1	297.9	289.7	1,066.9	990.8
Net assets - ending	\$ 871.2	769.0	311.0	297.9	1,182.2	1,066.9

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2006

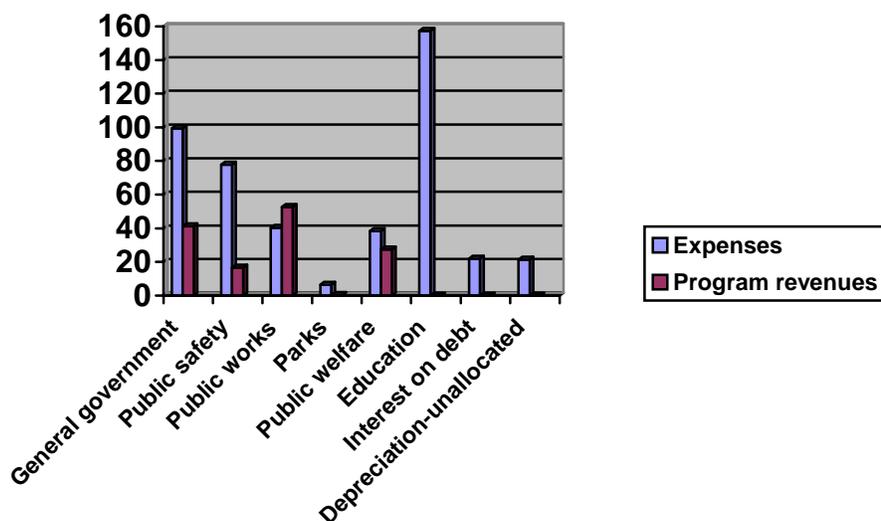
Governmental Activities

The City's total revenues from governmental activities were \$564.9 million for the fiscal year ended June 30, 2006. The largest source of revenue (\$260 million for fiscal year 2006) for the City is property taxes, composed of real estate and personal property taxes. Revenue from property taxes increased 16% over the prior year, largely due to the 18.6% increase in the City's assessed real property tax base. The real estate tax rate for 2005-2006 was \$1.21 per \$100 of assessed value with an additional \$.02 for the Mosquito Control Commission. The City Council voted to reduce the tax rate further by \$.12 effective July 1, 2006.

Revenues from other taxes increased 7% over the prior fiscal year, fueled in part by continued strong consumer activity and activity in the real estate market. Approximately 60% of the City's revenue from governmental and business-type activities comes from some type of tax, and 12% comes from fees charged for services.

The City's expenses for governmental activities cover a wide range of services, with 17% or \$77.9 million for fiscal year 2006 related to public safety and 34% or \$157.3 million for fiscal year 2006 for education (including payments to the Public Schools, a component unit). Overall, expenses for governmental activities increased by 5% which can be largely attributed to public safety salaries and benefit costs for new police officers and firefighters and costs associated with operation and maintenance of the Emergency 911 system.

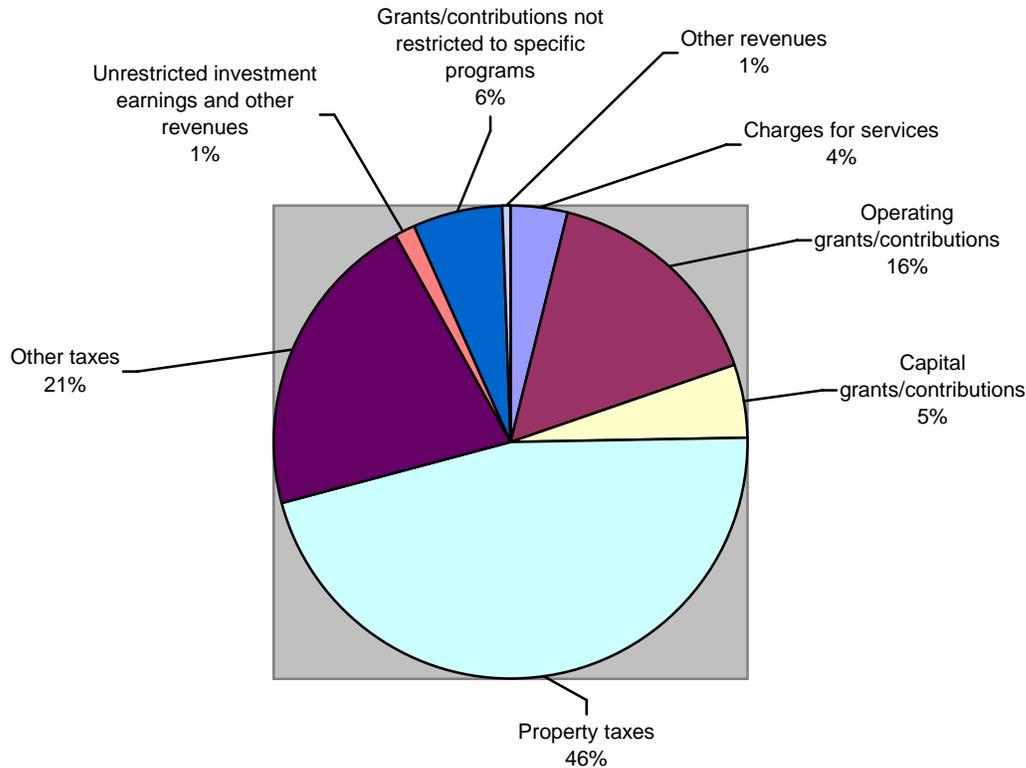
Expenses and Program Revenues – Governmental Activities (in millions) Year Ended June 30, 2006



CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2006

Revenues by Source – Governmental Activities – Year Ended June 30, 2006



Business-Type Activities

Net assets for the City's business-type activities increased by \$13.1 million largely as a result of assets deeded over by developers. This increase accounted for 11% of the total growth in the City's net assets. Charges for services including water and sewer utility fees, stormwater fees, and toll revenues made up 81% of total revenues for business-type activities. The overall net increase in expenses for all business-type activities was 3% which resulted largely from the the Lake Gaston plan coming on line during the year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City of Chesapeake uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2006

Governmental Funds

The focus of Chesapeake's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. In particular, unreserved fund balance may serve as a useful measure of net resources available at the end of a fiscal year. For the fiscal year ended June 30, 2006, the governmental funds reported combined ending fund balances of \$268.2 million, an increase of \$62.1 million over the prior year. Included in this are the following major transactions in governmental funds for the year ended June 30, 2006:

- \$51.1 million spent in the Capital Projects Fund to fund infrastructure, land acquisitions for economic development and parks and recreation, a new community center, a new high school, and other community facilities throughout the City.
- \$150.7 million contributed by the City's General Fund in operating and capital funds to finance the Public Schools' operations and capital construction. Additionally, the City paid \$25.5 million in debt service for the Public Schools.
- \$1.7 million of additional tax revenues generated by increased property values within the City's Tax Increment Financing District.
- \$26.2 million principal debt retired.

Approximately \$182.5 million of the combined total fund balances constitutes *unreserved fund balance*, which generally is available for spending at the government's discretion. City Council has designated portions of this unreserved fund balance at June 30, 2006 in the following amounts and for the following purposes:

- \$28.2 million for cash flow emergencies
- \$23.5 million for operating emergencies
- \$27 million for debt service
- \$2.1 million for various other purposes

The remainder of the unreserved fund balance at June 30, 2006, not designated for a specific purpose, includes \$77 million in the General Fund, the City's chief operating fund. This amount represents 21.4% of total General Fund expenditures, as a measure of the General Fund's liquidity. Total fund balance of the General Fund increased by \$49.1 million for fiscal year 2006. Key factors that contributed to this increase were stronger than expected revenues coupled with department managers' efforts to reduce planned spending. In addition, the General Fund had an increase in undesignated fund balance from operations amounting to \$32.6 million. This increase represents an excess of revenues over expenditures of \$112 million, other financing sources (uses) net, of (\$62.9) million, and a net increase in reserves and designations of \$16.5 million.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2006

The General Fund experienced an overall 10% growth in revenue. Investment income was up 85% due to an increase in interest rates nationwide as well as higher cash balances available for investment. General property taxes accounted for \$28 million in increased tax revenue for the City, with a 13% increase over 2005. An 18.6% growth in real estate assessments helped generate this increased tax revenue. Total revenues from local sources grew by \$38.3 million or 11%. Expenditures increased overall 7% from the fiscal year 2005 level. Contributing to this increase were a 10% increase in the education category for payments to Chesapeake Public Schools and a 7% increase in the public safety category. The increase in public safety is attributed to staffing increases for police officers and firefighters and a State mandate on public safety overtime. Overall, the increase in total expenditures included higher costs for operation of new facilities, solid waste disposal and employee benefits and compensation.

The Debt Service Fund ended the year with \$29.8 million in total fund balance, an increase of \$4 million over 2005. The unreserved fund balance is \$27 million, which has been designated by City Council for the payment of debt service. This increase in fund balance resulted mainly from interest earnings of \$3.7 million, not needed for fiscal year 2006 debt service payments due to the timing of new debt issued. The following major transactions were recorded during the year:

- a transfer of \$758,762 from lottery proceeds received by the Schools, to fund debt service on bonds.
- issuance of \$15.8 million general obligation public improvement bonds, of which \$250,880 in proceeds were recorded in the Debt Service Fund to fund issuance costs associated with the borrowing.

The City spent \$51.1 million in the Capital Projects Fund to fund major capital projects, including Cedar Road improvements, Centerville Turnpike Park, Crestwood drainage, Campostella Community Center, land acquisitions for parks and for the South Norfolk plan, and Grassfield High School.

Proprietary Funds

The City of Chesapeake's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Restricted net assets of the Public Utilities Enterprise Fund at the end of the year amounted to \$43.1 million. Growth in net assets was \$13.3 million, resulting mainly from the booking of deeded and donated assets from developers in the amount of \$10.9 million. The increase in net assets prior to the impact of this transaction was \$2.4 million. Approximately \$9.1 million was spent on major water and sewer capital projects, including the completion of the Lake Gaston Water Treatment plant.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2006

The Chesapeake Expressway toll road reported operating revenues for fiscal year 2006 totaling \$7.1 million versus \$6.9 million for 2005. Operating expenses for the year amounted to \$7.2 million, with \$4.6 million from depreciation expense. Net assets decreased by \$2.5 million, with the Chesapeake Expressway Fund covering interest expense of \$2.1 million on the toll road revenue bonds. Additionally, the fund made repayments to the Commonwealth of Virginia for Toll Facility Revolving funds that helped fund the initial construction of the toll road.

The Stormwater Management Fund, an enterprise fund, had \$21.1 million in total net assets at June 30, 2006, up from \$19.2 million in 2005. Income from operations was \$1.5 million. Any fees collected in excess of current operating needs are restricted for use on future stormwater projects around the City. Approximately \$3 million was spent on various stormwater, dredging, and drainage improvement projects during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual
Revenues:			
Taxes	\$ 348,294,044	350,332,244	362,987,399
Intergovernmental	74,524,081	75,491,951	84,595,628
Other	17,958,930	18,942,162	23,248,378
Total	440,777,055	444,766,357	470,831,405
Expenditures and transfers:			
Expenditures *	217,796,121	220,300,680	209,273,353
Transfers (net)	213,814,957	219,714,481	212,420,038
Total	431,611,078	440,015,161	421,693,391
Change in fund balance	\$ 9,165,977	4,751,196	49,138,014

*The City's budget ordinance includes, as part of the original budget for expenditures, the amount of \$1.2 million for encumbrances reappropriated from June 30, 2005.

Differences between the original budget and the final amended budget for the City's General Fund amounted to \$8.4 million (net increase in appropriations and transfers) and include the following major changes:

- \$700,000 appropriation increase for bridge and road maintenance funded by State highway maintenance funds;
- \$179,000 appropriation increase for the Commonwealth's Attorney's office, funded by the State Compensation Board;

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2006

- \$907,000, funded from excess recordation taxes, transferred to Chesapeake Public Schools to fund the purchase of textbooks;
- \$1.1 million, funded from excess recordation taxes, appropriated for public safety, sheriff and other governmental operating needs and a \$225,000 addition to City Council cash flow and operating reserves;
- \$549,000 appropriated for public works operations and bridges and roads capital needs, from overweight citation fees;
- \$252,000 appropriation increase for court-related equipment needs, funded by the State;
- \$511,000 appropriation from the undesignated fund balance for the book collection and staffing of the new Campostella Square library;
- \$600,000 appropriation from undesignated fund balance for costs associated with the Northwest River Watershed Initiative;
- \$1.2 million transferred to other funds to fund salary and benefit increases, including the increased cost of health insurance;
- \$2.5 million appropriated from existing reserves and undesignated fund balance for capital improvement projects, including schools.

Actual total revenues exceeded the amended budget by \$26.1 million, largely due to higher than expected revenues from current and delinquent property tax collections and other local taxes, generated by a strong real estate market. Local sales taxes, business licenses taxes, building permits, investment income and restaurant food taxes all provided excess revenues. The City received reimbursements from the State for the Personal Property Tax Relief Act in excess of the amount budgeted due to timing uncertainties with the State's payout. In addition, the City received \$2.8 million excess funds from the Federal government for reimbursement of prior year expenditures in connection with Hurricane Isabel. Expenditures were significantly below budget by \$11 million. This positive budget variance more than provided for the planned increase in designated fund balance and reserves in the amount of \$4.8 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Chesapeake's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to approximately \$1.5 billion (net of accumulated depreciation). This investment includes land, municipal and school buildings and improvements, drainage and water/sewer systems, machinery and equipment, roads, bridges, and construction in progress. The total change in the City's investment in capital assets for the current year was a net increase of 4% (an increase of 4.5% for governmental activities and an increase of 2.3% for business-type activities).

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2006

Major capital asset events during the fiscal year included the following:

- The City capitalized the \$80 million Lake Gaston water treatment plant, thus reducing construction in progress to \$14.2 million in its business-type activities.
- Construction in progress totaled \$71.8 million for governmental activities at the end of the fiscal year (including certain Public Schools projects under construction).

The City's fiscal year 2007 capital budget calls for \$67.8 million for capital projects, including \$3 million for a new fire station and police precinct in the Hickory area, \$2.4 million for design for the Route 104 Steel Bridge and \$47 million for Oscar Smith Middle School replacement. The City plans to issue \$54.3 million in bonds with other funding provided by local and State funds and funds on hand.

City of Chesapeake's Capital Assets (net of accumulated depreciation) June 30, 2006 and 2005 (in millions)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 271.7	261.9	21.6	17.7	293.3	279.6
Construction in progress	100.3	56.2	14.2	83.3	114.5	139.5
Buildings	370.7	377.1	4.9	5.0	375.6	382.1
Improvements other than buildings	17.1	18.7	1.1	1.0	18.2	19.7
Equipment and vehicles	26.2	26.5	2.9	3.6	29.1	30.1
Infrastructure	280.4	279.5	432.9	356.2	713.3	635.7
Total	\$ 1,066.4	1,019.9	477.6	466.8	1,544.0	1,486.7

Additional information on the City of Chesapeake's capital assets can be found in Note 4 of the financial statements.

Long-term Debt

At the end of the current fiscal year, the City of Chesapeake had total bonded debt outstanding (including literary loans) of \$538,373,977. Of this amount, \$516,743,977 comprises debt backed by the full faith and credit of the City and \$21,630,000 is debt secured by revenues of the Chesapeake Expressway Fund.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2006

City of Chesapeake's Outstanding Debt General Obligation, Revenue Bonds, and Literary Loans June 30, 2006 and 2005 (in millions)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ 381.1	364.0	130.4	135.3	511.5	499.3
Revenue bonds	-	-	21.6	21.6	21.6	21.6
Literary loans	5.2	5.7	-	-	5.2	5.7
Total	\$ 386.3	369.7	152.0	156.9	538.3	526.6

Chesapeake's total bonded debt increased by \$11.7 million during the fiscal year. New debt issued, in the amount of \$42.8 million, was largely offset by budgeted debt principal repayments amounting to \$31.1 million. Principal outstanding on lease revenue bonds backed by the City's general obligation pledge in the amount of \$4.8 million, issued by a blended component unit, CSB of Chesapeake, Inc., have been reported with the City's total debt outstanding for governmental activities.

The City maintains an AA rating from Standard & Poor's Corporation on general obligation bond issues. Under Moody's Investors Service, the City maintains an Aa2 rating. The public utility revenue bonds have been rated Aa3 by Moody's and AA by Standard & Poor's Corporation. Chesapeake Expressway toll road revenue bonds are rated Baa1 by Moody's.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total assessed valuation of real property. The current debt limitation for the City of Chesapeake is \$1,745,118,656 which is significantly in excess of the City's total outstanding debt subject to the legal debt limit.

Additional information on the City of Chesapeake's long-term debt can be found in note 6 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The average unemployment rate for fiscal year 2006 for the City of Chesapeake is 3.2%, versus 3.6% for 2005. This compares to the state's average unemployment rate of 3.2% and the average national rate of 4.8%.
- Chesapeake's annual population growth rate has slowed over the past several years, from a high of 4.73% between 1986 and 1987, to 1.71% between 2005 and 2006.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2006

- The 18% growth in the City's tax base, and the resultant effect on the Chesapeake homeowner, was partially offset by the reduction of the City's real estate tax rate by \$.12, effective July 1, 2006.
- To help address the identified School and City capital backlog, funds continue to be reserved in the General Fund for Schools Future Capital Projects ("School Lock Box") and City Future Capital Projects ("City Lock Box"), to provide resources for future debt service and cash funding for projects.
- In accordance with a planned utility rate study, the City adjusted water and sewer connection fees and rates beginning January 1, 2007.

All of these factors were considered in preparing Chesapeake's budget for the 2007 fiscal year.

During the current fiscal year, undesignated fund balance in the General Fund increased from \$44.4 million to \$77.0 million. The fiscal year 2007 operating budget includes no planned use of General Fund fund balance. The budget provides for approximately \$10 million funding for the City and Schools capital "lock boxes" mentioned above. The real estate tax rate was reduced from \$1.21 per \$100 value to \$1.09 per \$100 value. Stormwater rates remained stable.

In fiscal year 2008, the City will be implementing the Governmental Accounting Standard Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. For the City, other postemployment benefits (OPEB) include medical and dental coverage extended to retirees. Currently, the City accounts for these benefits as incurred. For government-wide reporting purposes, GASB 45 will require the City to actuarially determine the value of these benefits and recognize the costs over the active service life of the employees. In addition, the value of OPEB earned in periods prior to implementation of GASB 45 will be amortized over a period of 30 years. Also, the City will be required to disclose the extent to which these benefits have been funded. The City has performed a preliminary actuarial valuation of its OPEB liability and is continuing to work in this area as it evaluates and explores options for funding its OPEB liability.

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, 306 Cedar Road, Chesapeake, Virginia 23322.

Basic Financial Statements



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Government-Wide Financial Statements



Statement of Net Assets
June 30, 2006

	Governmental Activities	Business - Type Activities	Total Primary Government	Discretely Presented Component Units	
				Public Schools	Others
ASSETS					
Cash and temporary investments (note 2)	\$ 182,075,435	23,728,461	205,803,896	27,410,712	6,448,920
Receivables, net of allowance for uncollectible amounts (note 3)	68,481,613	8,852,571	77,334,184	16,123,904	31,885,831
Due from component units, net of allowance for uncollectible amounts (note 7)	548,033	-	548,033	-	-
Internal balances (note 1)	1,184,738	(1,184,738)	-	-	-
Inventories	431,605	479,089	910,694	1,136,749	8,014,450
Prepaid expenses	902,610	34,433	937,043	737,797	-
Restricted assets (note 2):					
Cash and temporary investments with trustee	2,423,656	1,223,751	3,647,407	-	-
Cash restricted for debt service	-	491,024	491,024	-	-
Cash restricted for debt service with trustee	-	3,345,633	3,345,633	-	-
Cash with State Set-Aside (note 6)	1,005,966	-	1,005,966	-	-
Capital construction:					
Cash and temporary investments	67,049,223	26,382,452	93,431,675	4,131,451	-
Cash and temporary investments with trustee	7,130,946	2,999,723	10,130,669	-	-
Capital Assets (notes 4, 6, and 9):					
Land	271,692,141	21,567,066	293,259,207	16,846,470	1,141,308
Construction in progress	100,273,601	14,209,141	114,482,742	1,458,827	73,569
Buildings	514,173,832	5,493,339	519,667,171	36,769,878	1,246,523
Improvements other than buildings	24,823,998	1,475,719	26,299,717	5,409,691	14,761,675
Equipment and vehicles	74,715,725	8,924,594	83,640,319	55,237,618	1,036,369
Infrastructure	996,590,158	570,719,969	1,567,310,127	-	-
Accumulated depreciation	(915,867,208)	(144,752,979)	(1,060,620,187)	(38,207,620)	(7,273,769)
Other assets	1,391,728	939,759	2,331,487	-	391,991
Total assets	\$ 1,399,027,800	544,929,007	1,943,956,807	127,055,477	57,726,867
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable, deposits and accrued expenses (note 3)	\$ 24,517,977	4,565,180	29,083,157	33,581,572	472,265
Deferred revenues	813,620	2,400,478	3,214,098	-	12,943
Matured bonds payable (note 6)	2,060,000	-	2,060,000	-	-
Due to primary government (note 7)	-	-	-	-	2,811,536
Long-term liabilities (notes 6, 9, and 10):					
Due within one year	48,400,214	6,080,744	54,480,958	5,668,345	2,972,115
Due in more than one year	452,017,131	220,832,351	672,849,482	30,373,246	32,491,989
Total liabilities	527,808,942	233,878,753	761,687,695	69,623,163	38,760,848
Net Assets					
Invested in capital assets, net of related debt	649,736,620	254,349,571	904,086,191	70,526,506	13,722,714
Restricted for:					
Capital projects	6,604,716	3,260,963	9,865,679	5,669,625	-
Debt service	7,585,894	5,532,370	13,118,264	-	-
Other purposes:					
Expendable	32,080,786	46,287,418	78,368,204	-	-
Nonexpendable	12,795	-	12,795	-	-
Unrestricted	175,198,047	1,619,932	176,817,979	(18,763,817)	5,243,305
Total net assets	871,218,858	311,050,254	1,182,269,112	57,432,314	18,966,019
Total liabilities and net assets	\$ 1,399,027,800	544,929,007	1,943,956,807	127,055,477	57,726,867

Statement of Activities
Year Ended June 30, 2006

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets					
	Program Revenues			Primary Government Business-Type Activities		Discretely Presented Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
PRIMARY GOVERNMENT						
Governmental activities:						
General government	\$ 101,278,295	11,164,814	27,049,634	224,331	(62,839,516)	-
Public safety	77,947,397	5,975,514	10,622,173	-	(61,349,710)	-
Public works	40,314,100	1,331,973	23,844,864	27,471,843	12,334,580	-
Parks	6,417,776	74,469	352,941	-	(5,990,366)	-
Public welfare	38,702,645	2,635,982	24,789,711	-	(11,276,952)	-
Education	157,328,449	-	3,461,393	134,470	(153,732,586)	-
Interest on long term debt	19,785,611	-	-	-	(19,785,611)	-
Depreciation and amortization - net unallocated portion (note 4)	21,445,311	-	-	-	(21,445,311)	-
Total governmental activities	463,219,584	21,182,752	90,120,716	27,830,644	(324,085,472)	-
Business-type activities:						
Public Utilities	41,565,116	42,572,239	1,272,320	10,928,051	13,207,494	-
Chesapeake Expressway	9,353,137	7,074,711	254,130	-	(2,024,296)	-
Stormwater Management	3,244,651	4,713,008	331,731	-	1,800,088	-
Northwest River Park	110,101	128,933	-	-	18,832	-
Jordan Bridge	1,082,663	1,538,705	-	-	456,042	-
Recreation	665,589	694,222	-	-	28,633	-
Total business-type activities	56,021,257	56,721,818	1,858,181	10,928,051	13,486,793	-
Total primary government	\$ 519,240,841	77,904,570	91,978,897	38,758,695	(324,085,472)	(310,598,679)
COMPONENT UNITS						
Public Schools	\$ 374,191,792	7,870,493	64,061,438	1,343,384	-	(300,916,477)
Chesapeake Mosquito Control Commission	4,137,568	-	4,910,388	-	-	772,820
Economic Development Authority	5,105,041	-	7,286,609	-	-	2,181,568
Chesapeake Port Authority	12,984	-	12,989	-	-	5
Chesapeake Airport Authority	1,202,651	361,632	579,790	-	-	(261,229)
Total component units	\$ 384,650,036	8,232,125	76,851,214	1,343,384	-	(300,916,477)
General revenues:						
Taxes:						
Property taxes, levied for general purposes					\$ 260,070,410	-
Local sales and use taxes					34,355,722	-
Business license taxes					23,853,491	-
Consumer utility taxes					20,203,462	-
Other taxes					41,289,606	-
Payment from City					-	150,652,116
Grants and contributions not restricted to specific programs					33,769,560	-
Unrestricted investment earnings					8,312,030	149,142,199
Miscellaneous					3,906,011	1,204,100
Transfers					489,971	936,605
Total general revenues and transfers					426,250,263	301,935,020
Change in net assets					102,164,791	1,018,543
Net assets - beginning					769,054,067	56,413,771
Net assets - ending					\$ 871,218,858	57,432,314
					1,182,269,112	18,966,019

The notes to the financial statements are an integral part of this statement.

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Fund Financial Statements



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Governmental Fund Financial Statements

Major Governmental Funds – Include General, Debt Service, and Capital Projects Funds.

Other Governmental Funds – Include Special Revenue and Permanent Funds.



CITY OF CHESAPEAKE, VIRGINIA

Schedule C

Balance Sheet
 Governmental Funds
 June 30, 2006

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and temporary investments (note 2)	\$ 116,878,817	28,726,557	-	16,435,953	162,041,327
Intergovernmental revenues due from (note 3):					
Commonwealth of Virginia:					
Local sales tax	2,971,371	-	-	-	2,971,371
State categorical aid	1,570,806	-	-	-	1,570,806
Personal property tax relief act	31,467,560	-	-	-	31,467,560
Other	131,264	-	741,415	2,107,438	2,980,117
Federal government	11,960	-	405,875	3,798,332	4,216,167
Receivables (note 3):					
Property taxes	19,159,676	-	-	-	19,159,676
Accounts receivable	2,034,563	-	1,566	644,463	2,680,592
Utility taxes	1,540,605	-	-	-	1,540,605
Interest	885,523	256,281	13,784	2,449	1,158,037
Fines	235,170	-	-	-	235,170
Ambulance fees	3,029,372	-	-	-	3,029,372
Restaurant and food tax	1,630,486	-	-	-	1,630,486
Other	1,885,873	-	-	-	1,885,873
Allowance for uncollectible amounts	(6,957,296)	-	-	144,762	2,030,635
Due from other funds (note 8)	1,379,433	237,437	-	-	(6,957,296)
Prepaid expenditures and other assets	59,713	-	-	-	1,616,870
Restricted assets (note 2):					59,713
Cash and temporary investments with trustee	-	2,423,656	-	-	2,423,656
Cash with state set-aside (note 6)	1,005,966	-	-	-	1,005,966
Capital construction:					
Cash and temporary investments	-	-	67,049,223	-	67,049,223
Cash and temporary investments with trustee	-	-	7,130,946	-	7,130,946
Advances to component units (note 7):					
Economic Development Authority	1,319,095	-	-	-	1,319,095
Chesapeake Airport Authority	216,533	331,500	-	-	548,033
Chesapeake Port Authority	944,407	-	-	-	944,407
Allowance for doubtful accounts	(2,263,502)	-	-	-	(2,263,502)
Total assets	\$ 179,137,395	31,975,431	75,342,809	23,133,397	309,589,032

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule C, Continued

Balance Sheet
 Governmental Funds
 June 30, 2006

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable (note 3)	\$ 3,459,750	21,464	-	1,482,368	4,963,582
Deposits (note 3)	3,781,075	-	-	60,546	3,841,621
Accrued expenditures (note 3)	4,449,366	-	-	70,081	4,519,447
Deferred revenues (note 5)	17,507,533	-	-	782,532	18,290,065
Payables from restricted assets:					
Matured certificates of participation payable	-	2,060,000	-	-	2,060,000
Matured interest payable (note 3)	-	56,650	-	-	56,650
Construction projects payable (note 3)	-	-	6,016,499	-	6,016,499
Due to other funds (note 8)	-	-	237,437	1,379,433	1,616,870
Total liabilities	29,197,724	2,138,114	6,253,936	3,774,960	41,364,734
Fund Balances					
Reserved (note 11):					
Expendable	19,163,556	2,821,772	60,978,550	2,785,875	85,749,753
Unexpendable	-	-	-	12,795	12,795
Unreserved:					
Designated for debt service	-	27,015,545	-	-	27,015,545
Designated for cash flow emergencies (note 1)	28,188,802	-	-	-	28,188,802
Designated for operating emergencies (note 1)	23,490,669	-	-	-	23,490,669
Designated - General Fund	2,073,599	-	-	-	2,073,599
Designated - Special Revenue Funds	-	-	-	51,796	51,796
Undesignated	77,023,045	-	8,110,323	-	85,133,368
Undesignated - Special Revenue Funds	-	-	-	16,361,382	16,361,382
Undesignated - Permanent Funds	-	-	-	146,589	146,589
Total fund balances	149,939,671	29,837,317	69,088,873	19,358,437	268,224,298
Total liabilities and fund balances	\$ 179,137,395	31,975,431	75,342,809	23,133,397	309,589,032

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule C, Continued

Balance Sheet
 Governmental Funds
 June 30, 2006

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

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Ending fund balance - governmental funds \$ 268,224,298

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds. Total capital assets used in governmental activities as reported in footnote 4 to the financial statements also include assets of \$22,199,640 associated with the internal service funds as indicated below.

Capital assets 1,044,202,607

Governmental funds report the effect of issuance costs when the debt is issued. These costs are deferred in the Statement of Net Assets.

1,391,728

Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures, and therefore, are deferred in the funds.

17,476,445

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets as detailed below. The total amount included in governmental activities does not include the portion allocable to business-type activities of \$1,184,738 as noted on Schedule E.

Capital assets	22,199,640
Long-term debt	(29,686,970)
Other assets and liabilities	22,696,492

15,209,162

Unmatured interest payable reported in governmental activities will not be paid with current financial resources, and therefore, is not reported in the funds.

(4,555,006)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Total long-term obligations for governmental activities as reported in footnote 6 to the financial statements also include long-term obligations of \$29,686,970 associated with the internal service funds as indicated above.

(470,730,376)

Net assets of governmental activities **\$ 871,218,858**

The notes to the financial statements are an integral part of this statement.

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CITY OF CHESAPEAKE, VIRGINIA

Schedule D

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2006

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
General property taxes	\$ 252,864,255	-	-	1,706,706	254,570,961
Other local taxes	110,123,144	-	-	5,257,068	115,380,212
Licenses, permits, and fees	7,422,144	-	-	-	7,422,144
Fines and forfeitures	3,587,702	-	-	-	3,587,702
Investment income	2,910,811	1,311,352	3,055,721	350,146	7,628,030
Revenues from use of property	304,687	115,765	-	272,037	692,489
Charges for services	7,914,979	-	-	5,179,026	13,094,005
Miscellaneous local revenues	584,777	-	-	596,978	1,181,755
Recovered costs	523,278	-	653,838	1,862,670	3,039,786
Program income	-	-	-	179,969	179,969
Revenues from local developers	-	-	2,360,155	-	2,360,155
Intergovernmental revenues:					
Commonwealth of Virginia	81,524,923	224,331	522,880	16,803,274	99,075,408
Federal government	3,070,705	-	554,436	15,632,275	19,257,416
Mosquito Control Commission	300,000	-	-	-	300,000
Chesapeake Public Schools	811,131	1,048,345	1,601,917	-	3,461,393
Total revenues	471,942,536	2,699,793	8,748,947	47,840,149	531,231,425
EXPENDITURES					
Current:					
General government	87,666,707	-	-	12,048,797	99,715,504
Public safety	70,669,690	-	-	5,974,305	76,643,995
Public works	42,415,372	-	-	8,143	42,423,515
Parks	6,190,727	-	-	183,101	6,373,828
Public welfare	-	-	-	37,860,700	37,860,700
Education - Payments to Public Schools	150,652,116	-	-	-	150,652,116
Capital outlay	-	-	51,085,247	365,133	51,450,380
Debt service	2,330,857	45,429,799	-	744,774	48,505,430
Total expenditures	359,925,469	45,429,799	51,085,247	57,184,953	513,625,468
Excess (deficiency) of revenues over (under) expenditures	\$ 112,017,067	(42,730,006)	(42,336,300)	(9,344,804)	17,605,957

CITY OF CHESAPEAKE, VIRGINIA

Schedule D, Continued

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2006

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
OTHER FINANCING SOURCES(USES)					
Transfers from other funds (note 8)	\$ 897,092	46,444,754	4,565,846	18,675,092	70,582,784
Proceeds from capital lease (note 6)	531,918	-	-	-	531,918
General obligation bonds issued (note 6)	-	250,880	15,614,120	-	15,865,000
Transfers to other funds (note 8)	(64,308,063)	-	(2,799,702)	(3,476,692)	(70,584,457)
Premiums on general obligation bonds issued (note 6)	-	59,276	-	-	59,276
VPSA bonds proceeds (note 6)	-	-	26,935,000	-	26,935,000
Premiums on VPSA bonds (note 6)	-	-	1,072,963	-	1,072,963
Total other financing sources (uses)	(62,879,053)	46,754,910	45,388,227	15,198,400	44,462,484
Net change in fund balance	49,138,014	4,024,904	3,051,927	5,853,596	62,068,441
Fund balance - beginning	100,801,657	25,812,413	66,036,946	13,504,841	206,155,857
Fund balance - ending	\$ 149,939,671	29,837,317	69,088,873	19,358,437	268,224,298

CITY OF CHESAPEAKE, VIRGINIA

Schedule D, Continued

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2006

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds \$ 62,068,441

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The Statement of Activities also includes expenses which relate to current-year closed projects that included assets that are no longer capitalizable at the time of project closure. In addition, donated assets and losses on disposal of assets are not reported in governmental funds, but are reported as revenues (expenses) in the Statement of Activities. This represents the net effect of the donated assets plus the difference between depreciation expense and capital outlay expenditures. The details of this difference are as follows:

Depreciation expense	(35,132,336)
Capital outlay expenditures	54,970,123
Donated assets	27,479,538
Noncapitalizable assets related to closed projects	(1,084,208)
Loss on disposal	<u>(12,135)</u>

46,220,982

Because some revenues will not be collected for several months after the City's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased by this amount this year.

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, refunding costs, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related accounts. The details of this difference are as follows:

Debt issued (and related costs)	(44,249,477)
Principal repayments	<u>33,611,300</u>

(10,638,177)

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 the changes in:

Accrued interest	(413,840)
Compensated absences	(376,208)
Net pension obligation	<u>11,268</u>

(778,780)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenues (expenses) of certain activities of the internal service funds are reported with governmental activities.

(207,124)

Change in net assets of governmental activities

\$ 102,164,791

The notes to the financial statements are an integral part of this statement.

Proprietary Fund Financial Statements

Major Enterprise Funds:

Public Utilities – To account for the City’s water and sewer operations.

Chesapeake Expressway – To account for the operations of the Chesapeake Expressway toll road.

Stormwater Management – To account for the operation of the City’s stormwater utility and to fund the required improvements to stormwater quality.

Other Enterprise Funds – Include Northwest River Park, Jordan Bridge, and Recreation Funds.

Internal Service Funds – Include Information Technology, City Garage, and Self-Insurance Funds.



CITY OF CHESAPEAKE, VIRGINIA

Statement of Net Assets
 Proprietary Funds
 June 30, 2006

Schedule E

	Enterprise Funds					Total	Internal Service Funds
	Public Utilities	Chesapeake Expressway	Stormwater Management	Other Enterprise Funds			
ASSETS							
Current assets:							
Cash and temporary investments (note 2)	\$ 16,034,544	485,884	4,311,728	2,896,305	23,728,461	20,034,108	
Receivables (note 3):							
Accounts	7,621,035	261,409	1,531,009	27,779	9,441,232	652,858	
Interest	194,163	-	33,744	39,516	267,423	115,457	
Allowance for uncollectible amounts	(698,674)	-	(157,410)	-	(856,084)	-	
Inventory of materials and supplies	469,996	-	-	9,093	479,089	431,605	
Prepaid expenses	34,433	-	-	-	34,433	842,897	
Total current assets	23,655,497	747,293	5,719,071	2,972,693	33,094,554	22,076,925	
Noncurrent assets:							
Restricted assets (note 2):							
Cash and temporary investments with trustee	-	1,223,751	-	-	1,223,751	-	
Cash restricted for debt service	491,024	-	-	-	491,024	-	
Cash restricted for debt service with trustee	-	3,345,633	-	-	3,345,633	-	
Capital construction:							
Cash and temporary investments	22,478,649	292,098	3,611,705	-	26,382,452	-	
Cash and temporary investments with trustee	-	2,999,723	-	-	2,999,723	-	
Total restricted assets	22,969,673	7,861,205	3,611,705	-	34,442,583	-	
Capital assets (note 4):							
Land	9,726,018	11,105,618	351,736	383,694	21,567,066	-	
Construction in progress	7,739,174	1,18,750	6,338,305	12,912	14,209,141	255,525	
Buildings	73,598	5,389,295	-	30,446	5,493,339	138,579	
Improvements other than buildings	1,401,926	-	-	73,793	1,475,719	398,303	
Equipment and vehicles	3,031,676	5,064,520	264,407	563,991	8,924,594	60,608,616	
Infrastructure	474,570,972	82,355,685	8,742,868	5,050,444	570,719,969	-	
Less accumulated depreciation	(117,084,808)	(22,832,190)	(985,794)	(3,850,187)	(144,752,979)	(39,201,383)	
Total capital assets, net of accumulated depreciation	379,458,556	81,201,678	14,711,522	2,265,093	477,636,849	22,199,640	
Other assets	773,888	165,871	-	-	939,759	-	
Total noncurrent assets	403,202,117	89,228,754	18,323,227	2,265,093	513,019,191	22,199,640	
Total assets	\$ 426,857,614	89,976,047	24,042,298	5,237,786	546,113,745	44,276,565	

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Statement of Net Assets
 Proprietary Funds
 June 30, 2006

Schedule E, Continued

	Enterprise Funds					Total	Internal Service Funds
	Public Utilities	Chesapeake Expressway	Stormwater Management	Other Enterprise Funds			
LIABILITIES AND NET ASSETS							
Liabilities							
Current liabilities:							
Accounts payable (note 3)	\$ 1,692,916	27,656	14,808	57,650	1,793,030	543,643	
Accrued expenses and other liabilities (note 3)	540,210	918,353	214	6,069	1,464,846	21,529	
Deposits (note 3)	665,660	-	-	-	665,660	-	
Deferred revenues (note 5)	-	-	2,339,722	60,756	2,400,478	-	
Construction projects payable (note 3)	122,498	5,000	514,146	-	641,644	-	
Current portion of long-term debt (note 6)	4,960,573	555,909	-	-	5,516,482	-	
Current portion of obligations under capital leases (note 6)	-	-	-	-	-	2,420,739	
Current portion of notes payable (note 6)	115,000	-	-	-	115,000	-	
Current portion of accrued vacation, sick pay, and overtime leave (note 6)	347,756	34,916	42,255	24,335	449,262	185,560	
Current portion of liability for self-insurance losses (notes 6 and 15)	-	-	-	-	-	4,248,159	
Total current liabilities	8,444,613	1,541,834	2,911,145	148,810	13,046,402	7,419,630	
Noncurrent liabilities:							
General obligation bonds (note 6)	127,983,084	-	-	-	127,983,084	-	
Revenue bonds (note 6)	-	21,399,431	-	-	21,399,431	-	
Accrual for arbitrage rebate (note 6)	-	-	-	-	-	-	
Due to Commonwealth of Virginia (note 6)	-	70,511,728	-	-	70,511,728	-	
Obligations under capital leases (note 6)	-	-	-	-	-	5,594,901	
Notes payable (note 6)	345,000	-	-	-	345,000	-	
Accrued vacation, sick pay, and overtime leave (note 6)	459,102	46,096	55,785	32,125	593,108	244,975	
Liability for self-insurance losses (notes 6 and 15)	-	-	-	-	-	16,992,636	
Total noncurrent liabilities	128,787,186	91,957,255	55,785	32,125	220,832,351	22,832,512	
Total liabilities	137,231,799	93,499,089	2,966,930	180,935	233,878,753	30,252,142	
Net Assets							
Invested in capital assets, net of related debt	246,514,899	(9,129,033)	14,711,523	2,252,182	254,349,571	14,520,839	
Restricted for:							
Capital projects	500,000	2,760,963	-	-	3,260,963	-	
Debt service	3,792,238	1,740,132	-	-	5,532,370	-	
Other purposes	38,818,678	1,104,896	6,363,845	-	46,287,419	-	
Unrestricted	-	-	-	2,804,669	2,804,669	(496,416)	
Total net assets (note 16)	289,625,815	(3,523,042)	21,075,368	5,056,851	312,234,992	14,024,423	
Total liabilities and net assets	\$ 426,857,614	89,976,047	24,042,298	5,237,786	546,113,745	44,276,565	

Net assets of enterprise funds, Schedule E \$ 312,234,992
 Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds (1,184,738)
 Net assets of business-type activities, Schedule A \$ 311,050,254

The notes to the financial statements are an integral part of this statement.

CITY OF CHESAPEAKE, VIRGINIA

Schedule F

Statement of Revenue, Expenses, and Changes in Fund Net Assets
 Proprietary Funds
 Year Ended June 30, 2006

	Enterprise Funds					Total	Internal Service Funds
	Public Utilities	Chesapeake Expressway	Stormwater Management	Other Enterprise Funds			
REVENUES							
Charges for services:							
Sale of water	\$ 28,745,792	-	-	-	-	28,745,792	-
Billings to departments	-	-	-	-	-	-	24,196,308
Billings to outside agencies & component units	-	-	-	-	-	-	1,473,216
Sewer service charges	7,930,310	-	-	-	-	7,930,310	-
Stormwater management fees	-	-	4,652,543	-	-	4,652,543	-
Tolls and tickets	-	7,049,208	-	1,533,910	-	8,583,118	-
Rental fees	1,043,280	-	-	81,250	-	1,124,530	-
Connection fees	3,812,666	-	-	-	-	3,812,666	-
Recreation fees	-	-	-	488,197	-	488,197	-
Miscellaneous	288,574	15,316	11,427	-	-	315,317	8,707
Recovered costs	34	10,187	2,670	707	-	13,598	238,456
Other	751,583	-	-	257,796	-	1,009,379	-
Total operating revenues	42,572,239	7,074,711	4,666,640	2,361,860	-	56,675,450	25,916,687
OPERATING EXPENSES							
Cost of materials billed	-	-	-	-	-	-	3,776,985
Purchases for resale	11,051,332	-	-	43,048	-	11,094,380	1,670,754
Water production	6,061,726	-	-	-	-	6,061,726	-
Sewer maintenance and operation	4,069,063	-	-	-	-	4,069,063	-
Water maintenance and operation	1,997,644	-	-	-	-	1,997,644	-
Customer service	1,114,097	-	-	-	-	1,114,097	-
General and administrative	1,568,159	132,586	545,678	142,512	-	2,388,935	776,213
Technical services	1,176,164	-	-	-	-	1,176,164	-
Other salaries and wages	-	1,058,482	1,362,055	693,506	-	3,114,043	4,610,684
Other fringe benefits	-	405,571	587,799	205,503	-	1,198,873	1,564,315
Self-insurance losses	-	-	-	-	-	-	3,258,283
Indemnity and medical claims	-	-	-	-	-	-	2,064,689
Other repairs and supplies	-	323,036	92,013	171,908	-	586,957	2,650,916
Equipment rental	-	3,850	6,987	10,950	-	21,787	459,998
Other contractual services	-	706,145	397,186	356,319	-	1,459,650	699,559
Depreciation and amortization (note 4)	8,182,999	4,610,878	219,280	234,607	-	13,247,764	4,461,243
Insurance premiums	-	-	-	-	-	-	1,129,899

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule F (Continued)

Statement of Revenue, Expenses, and Changes in Fund Net Assets
 Proprietary Funds
 Year Ended June 30, 2006

	Enterprise Funds				Internal Service Funds
	Public Utilities	Chesapeake Expressway	Stormwater Management	Other Enterprise Funds	
OPERATING EXPENSES, continued					
Meter reading services	219,192	-	-	-	219,192
Other	5,800	5,565	-	-	11,365
Total operating expenses	35,446,176	7,246,113	3,210,998	1,858,353	47,761,640
Operating income (loss)	7,126,063	(171,402)	1,455,642	503,507	8,913,810
					(1,206,851)
NONOPERATING REVENUES (EXPENSES)					
Investment income	1,272,320	254,130	331,731	112,432	1,970,613
Interest expense	(6,046,225)	(2,107,024)	(70)	-	(8,153,319)
Gain on sale of equipment	-	-	-	-	74,771
Loss on sale of equipment	-	-	-	-	(122,259)
Total nonoperating revenue (expenses)	(4,773,905)	(1,852,894)	331,661	112,432	(6,182,706)
Income (loss) before transfers and contributions	2,352,158	(2,024,296)	1,787,303	615,939	2,731,104
Transfers in (note 8)	-	-	-	-	-
Transfers out (note 8)	-	(457,389)	-	(32,582)	(489,971)
Federal operating grants	-	-	37,536	-	37,536
State operating grants	-	-	8,832	-	8,832
Capital contributions	10,928,051	-	-	-	10,928,051
Increase (decrease) in net assets	13,280,209	(2,481,685)	1,833,671	583,357	13,215,552
					(313,422)
Total net assets - beginning	276,345,606	(1,041,357)	19,241,697	4,473,494	299,019,440
Total net assets - ending	\$ 289,625,815	(3,523,042)	21,075,368	5,056,851	312,234,992
					14,024,423

Change in net assets of enterprise funds, Schedule F
 Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds
 Change in net assets of business-type activities, Schedule B

\$ 13,215,552
 (106,298)
 13,109,254

The notes to the financial statements are an integral part of this statement.

CITY OF CHESAPEAKE, VIRGINIA

Schedule G

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

	Enterprise Funds					Internal Service Funds
	Public Utilities	Chesapeake Expressway	Stormwater Management	Other Enterprise Funds	Total	
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 42,690,808	6,944,134	4,685,414	2,333,280	56,653,636	25,423,638
Payments to suppliers	(19,556,715)	(1,151,997)	(1,043,426)	(693,318)	(22,445,456)	(16,643,542)
Payments to employees	(6,922,149)	(1,464,139)	(1,975,667)	(901,562)	(11,263,517)	(6,170,689)
Net cash provided by operating activities	16,211,944	4,327,998	1,666,321	738,400	22,944,663	2,609,407
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in	-	-	-	-	-	726,230
Transfers out	-	(457,389)	-	(32,582)	(489,971)	(132,212)
Proceeds from operating grants	-	-	46,368	-	46,368	-
Repayments of obligations under capital leases for equipment not capitalized	-	-	-	-	-	(319,430)
Net cash provided by (used in) noncapital financing activities	-	(457,389)	46,368	(32,582)	(443,603)	274,588
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from Commonwealth of Virginia	-	402,777	-	-	402,777	-
Proceeds from capital leases	-	-	-	-	-	3,441,800
Proceeds from sale of capital assets	-	-	-	-	-	74,771
Acquisition of capital assets	(9,325,383)	(746,907)	(2,997,599)	(12,912)	(13,082,801)	(5,014,273)
Increase (decrease) in construction projects payable	(2,477,481)	-	458,744	-	(2,018,737)	-
Interest paid	(6,041,210)	(2,203,971)	-	-	(8,245,181)	(243,876)
Repayments of obligations under capital leases	(4,917,371)	(1,283,120)	-	-	(6,200,491)	(2,466,149)
Repayments of long-term debt	(37,124)	-	-	-	(37,124)	-
Adjustment in arbitrage liability	(115,000)	-	-	-	(115,000)	(48,578)
Repayment of notes payable	(22,913,569)	(3,831,221)	(2,538,855)	(12,912)	(29,296,557)	(4,256,305)
Net cash provided by (used in) capital and related financing activities	(22,913,569)	(3,831,221)	(2,538,855)	(12,912)	(29,296,557)	(4,256,305)

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule G, Continued

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

	Enterprise Funds					Total	Internal Service Funds
	Public Utilities	Chesapeake Expressway	Stormwater Management	Other Enterprise Funds			
CASH FLOWS FROM INVESTING ACTIVITIES							
Investment income	\$ 1,163,879	254,130	321,885	75,727	1,815,621	613,590	
Transfers out	-	-	-	-	-	(102,375)	
Net cash provided by investing activities	1,163,879	254,130	321,885	75,727	1,815,621	511,215	
Net increase (decrease) in cash and temporary investments	(5,537,746)	293,518	(504,281)	768,633	(4,979,876)	(861,095)	
Cash and temporary investments beginning of year	44,541,963	8,053,571	8,427,714	2,127,672	63,150,920	20,895,203	
Cash and temporary investments end of year	\$ 39,004,217	8,347,089	7,923,433	2,896,305	58,171,044	20,034,108	
Reconciliation of operating income (loss) to net cash provided by operating activities:							
Operating income (loss)	\$ 7,126,063	(171,402)	1,455,642	503,507	8,913,810	(1,206,851)	
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:							
Depreciation and amortization	8,182,999	4,610,878	219,280	234,607	13,247,764	4,461,243	
Change in assets and liabilities increasing (decreasing) cash and temporary investments:							
Receivables	(62,611)	(130,577)	(41,439)	(2,592)	(237,219)	(493,050)	
Inventory of materials and supplies	18,753	-	-	(3,103)	15,650	(85,171)	
Prepaid expenses and other assets	(2)	-	-	-	(2)	(43,952)	
Accounts payable	755,568	19,185	(1,560)	35,770	808,963	(279,813)	
Deferred revenues	-	-	60,213	(25,988)	34,225	-	
Deposits	181,180	-	-	-	181,180	-	
Accrued expenses and other liabilities	(43,183)	(7,359)	(24,126)	(6,695)	(81,363)	265,876	
Accrued vacation, sick pay, and overtime leave	53,177	7,273	(1,689)	2,894	61,655	(8,875)	
Total adjustments	9,085,881	4,499,400	210,679	234,893	14,030,853	3,816,258	
Net cash provided by operating activities	\$ 16,211,944	4,327,998	1,666,321	738,400	22,944,663	2,609,407	
Supplemental information on significant noncash transactions:							
Public Utilities Fund:							
Contributions of capital assets	\$ 10,928,051						
Internal Service Funds:							
Borrowing under capital leases	\$ 3,778,682						

The notes to the financial statements are an integral part of this statement.

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Fiduciary Fund Financial Statement

Agency Fund – Includes Special Welfare Fund.



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CITY OF CHESAPEAKE, VIRGINIA

Schedule H

Statement of Fiduciary Net Assets

Fiduciary Fund

June 30, 2006

	Special Welfare
ASSETS	
Cash and temporary investments (note 2)	\$ 12,353
Total current assets	\$ 12,353
LIABILITIES	
Due to children under foster care	\$ 12,353
Total liabilities	\$ 12,353

The notes to the financial statements are an integral part of this statement.

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Other Discretely Presented Component Units

Chesapeake Mosquito Control Commission – To account for the operation of the City's Mosquito Control Commission.

Economic Development Authority (EDA) – To account for the operation of the EDA which is responsible for promoting industry and developing trade.

Chesapeake Port Authority – To account for the operation of the City's Port Authority.

Chesapeake Airport Authority – To account for the operation of the Chesapeake Airport and its ancillary activities.



CITY OF CHESAPEAKE, VIRGINIA

Schedule I

Statement of Net Assets
Other Discretely Presented Component Units
June 30, 2006

	Governmental Activities		Business-type Activities			Total
	Chesapeake Mosquito Control Commission	Chesapeake Port Authority	Economic Development Authority	Chesapeake Port Authority	Chesapeake Airport Authority	
ASSETS						
Current assets:						
Cash and temporary investments (note 2)	\$ 4,629,392		1,388,959	4,095	426,474	6,448,920
Receivables, net of allowance for uncollectible amounts	-		31,879,190	-	6,641	31,885,831
Inventories	393,231		7,621,219	-	-	8,014,450
Capital assets:						
Land	204,340		-	-	936,968	1,141,308
Construction in progress	73,569		-	-	-	73,569
Buildings	1,246,523		-	-	-	1,246,523
Improvements other than buildings	14,897		-	-	14,746,778	14,761,675
Equipment and vehicles	881,509		-	-	154,860	1,036,369
Less accumulated depreciation	(511,102)		-	-	(6,762,667)	(7,273,769)
Other assets	-		284,551	-	107,440	391,991
Total assets	\$ 6,932,359		41,173,919	4,095	9,616,494	57,726,867
LIABILITIES AND NET ASSETS						
Liabilities						
Accounts payable and accrued expenses	\$ 130,265		251,283	-	90,717	472,265
Deferred revenues	-		-	-	12,943	12,943
Due to primary government	-		1,319,095	944,407	548,034	2,811,536
Current portion of long-term debt	-		2,872,115	-	100,000	2,972,115
Long term liabilities	-		30,626,989	-	1,865,000	32,491,989
Total liabilities	130,265		35,069,482	944,407	2,616,694	38,760,848
Net Assets						
Invested in capital assets, net of related debt	1,909,736		5,250,073	-	6,562,905	13,722,714
Unrestricted	4,892,358		854,364	(940,312)	436,895	5,243,305
Total net assets	6,802,094		6,104,437	(940,312)	6,999,800	18,966,019
Total liabilities and net assets	\$ 6,932,359		41,173,919	4,095	9,616,494	57,726,867

The notes to the financial statements are an integral part of this statement.

CITY OF CHESAPEAKE, VIRGINIA

Schedule J

Statement of Activities
 Other Discretely Presented Component Units
 Year Ended June 30, 2006

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Charges for Services	Operating Grants and Contributions	Chesapeake Mosquito Control Commission	Economic Development Authority	Chesapeake Port Authority	Chesapeake Airport Authority	Total
Governmental Type Activities								
Chesapeake Mosquito Control Commission	\$ 4,137,568	-	4,910,388	772,820	-	-	-	772,820
Business-type Activities								
Economic Development Authority	5,105,041	-	7,286,609	-	2,181,568	-	-	2,181,568
Chesapeake Port Authority	12,984	-	12,989	-	-	5	-	5
Chesapeake Airport Authority	1,202,651	361,632	579,790	-	-	-	(261,229)	(261,229)
Total component units	\$ 10,458,244	361,632	12,789,776	772,820	2,181,568	5	(261,229)	2,693,164
Change in net assets				\$ 772,820	2,181,568	5	(261,229)	2,693,164
Net assets - beginning				6,029,274	3,922,869	(940,317)	7,261,029	16,272,855
Net assets - ending				\$ 6,802,094	6,104,437	(940,312)	6,999,800	18,966,019

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Notes to Basic Financial Statements



CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(1) Summary of Significant Accounting Policies

The Reporting Entity

The City of Chesapeake, Virginia (the City) was formed on January 1, 1963, under the provision of Chapter 211 of the Acts of Assembly of 1962, by the merger of the former City of South Norfolk and the County of Norfolk. The City is comprised of six boroughs; one borough representing the former City of South Norfolk and five boroughs representing the five magisterial districts of the former County of Norfolk.

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.

All of the City's component units are discretely presented except the CSB of Chesapeake, Inc., (CSBC, Inc.) which is blended with the City's governmental activities. 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 City's component units have a fiscal year end of June 30. The following component units are discretely presented in the City's financial statements:

- The Chesapeake Public Schools (the Public Schools) are responsible for elementary and secondary education within the City. All nine members of the School Board are elected. The City Council approves the annual budget of the Public Schools, levies the necessary taxes to finance the Public Schools' operations, and approves the borrowing of money and the issuance of bonds. Separate audited financial statements are available from the Chesapeake Public Schools at 312 Cedar Road, Chesapeake, Virginia 23322.

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(1) Continued

- The Economic Development Authority of the City of Chesapeake (the EDA) was established under the Industrial Development and Revenue Bond Act, *Code of Virginia*. The EDA is responsible for promoting industry and developing trade by inducing manufacturing, industrial, and commercial enterprises to locate or to remain in the City. The City Council appoints the members of the Board of the EDA. The EDA issued lease revenue bonds for two major construction projects for which the City is the lessor. The City also appropriates funds annually to pay the administrative expenses of the EDA. Separate audited financial statements for the EDA are available through the City's Department of Economic Development at 501 Independence Parkway, Suite 200, Chesapeake, Virginia 23320.

- The Chesapeake Airport Authority (the Airport Authority) was established by action of the General Assembly to operate the Chesapeake Airport and its ancillary operations. The City Council appoints the members of the Board of the Airport Authority, appropriates funds annually to pay administrative expenses of the Authority, and funds operating deficits as necessary. The City has also advanced the Airport Authority certain amounts and has provided the Airport Authority with a loan, both of which are still outstanding. In addition, the Airport Authority issued revenue bonds for which the City has a non-binding obligation to appropriate sufficient funds if a deficit exists in the debt service reserve account for these bonds. Separate audited financial statements are available from the Chesapeake Airport Authority at 1777 West Road, Chesapeake, Virginia 23323.

- The Chesapeake Port Authority (the Port Authority) was established by action of the General Assembly to promote trade and commerce in the City and the Commonwealth and to develop adequate, modern, and efficient seaports and harbors. The City Council appoints the members of the Board of the Port Authority and appropriates funds annually to pay administrative expenses of the Port Authority. The Port Authority does not issue separate audited financial statements.

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(1) Continued

- The Chesapeake Mosquito Control Commission (the Commission) manages the City's insecticide program. Prior to January 2003, there were five separate commissions serving five of the City's six boroughs through representation from City Council-appointed members. The consolidation of the five commissions into one, approved by City Council, became effective in January 2003. The number of commissioners appointed will reduce to seven members, as terms expire. The City finances the operations of the Commission through incremental property taxes of \$.02 per \$100 of assessed value for real estate properties and \$.08 per \$100 of assessed value for personal property. The Commission does not issue separate audited financial statements.

Blended component units are entities that are legally separate from the City, but which provide services entirely, or almost entirely, to the City or otherwise exclusively benefit the City. Activities of blended component units are considered to be so intertwined with the City's that they are, in substance, part of the City's operations. CSBC, Inc. is considered to be a blended component unit in the City's financial statements. CSBC, Inc. was organized for the purpose of owning and financing a building to be used as a community services building by the City. CSBC, Inc. issued lease revenue bonds backed by the City's general obligation pledge. The City Council appoints the members of the Board of Directors and appropriates funds annually to pay rent on the building which CSBC, Inc. then uses to pay debt service on the bonds. No distinction is made between the activities of CSBC, Inc. and the City. As a result, CSBC, Inc. is reported as a special revenue fund in the City's financial statements. It does not issue separate audited financial statements.

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 discretely presented component units for which the primary government is financially accountable.

Separate government-wide financial statements are also provided for other discretely presented component units which are aggregated in the government-wide financial statements.

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(1) Continued

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 fund, 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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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. The fiduciary fund financial statements are custodial in nature, do not involve the measurement of results of operations, and use the accrual basis of accounting.

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.

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(1) Continued

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 *Capital Projects Fund* is used to account for financial resources to be used for the acquisition or construction of most major capital facilities other than those financed by proprietary funds.

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(1) Continued

The City reports the following major proprietary funds:

The *Public Utilities Fund* accounts for the operation of the City's water and sewer departments.

The *Chesapeake Expressway Fund* accounts for the operation of the Chesapeake Expressway toll road.

The *Stormwater Management Fund* accounts for the operation of the City's stormwater utility and to fund the required improvements to stormwater quality.

Operations of the proprietary funds are designed to be primarily self-supporting through user charges. These funds service their own debt and construction projects and record the acquisition of their depreciable assets and land.

Additionally, the City reports the following fund types:

Nonmajor governmental funds:

Special Revenue Funds account for revenues and expenditures related to programs that are restricted in nature for specific purposes. Examples include providing services to mental health, mental retardation and substance abuse programs, juvenile detention services, emergency call center services, activities of the Community Development Block Grant Program, individual grant programs, tax increment financing districts, and rendering economic aid to certain qualifying citizens under several different programs.

Permanent Funds account for the investment of funds donated to the City whose principal must be maintained in perpetuity.

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(1) Continued

Nonmajor proprietary funds:

Enterprise Funds account for Jordan Bridge, recreation, and Northwest River Park activities. These funds are designed to be primarily self-supporting through user charges. These funds service their own construction projects and record the acquisition of their depreciable assets and land.

Internal Service Funds account for central computer and information technology services, central fleet management services for City-owned vehicles, and services of the City's self-insurance program, provided to other departments, agencies, or components units of the City on a cost-reimbursement basis.

Fiduciary fund:

The *Special Welfare Agency Fund* accounts for the transfer of funds provided by the Virginia Public Assistance Fund for aid to dependent children. The City acts in a trustee capacity for these individual dependent children.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting* (Statement No. 20), the government-wide financial statements and the fund financial statements of the proprietary fund types follow all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements and predecessor APB Opinions and Accounting Research Bulletins (ARB) 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.

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(1) Continued

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.

Cash and Temporary Investments

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the Statement of Net Assets or Balance Sheet as "Cash and temporary investments." 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.

Cash and temporary investments are stated at fair value, which is based on quoted market prices. For U.S. Government securities with maturity dates of less than one year, the investments are valued at amortized cost. Because the City uses the pooled cash investment method, individual fund overdrafts are reclassified as due to/due from other funds or internal balances for financial statement purposes. Income from the investment of pooled cash is allocated to the various funds based on the percentage of cash and temporary investments of each fund to the total pooled cash and temporary investments.

For purposes of the statement of cash flows, all highly liquid debt instruments and certificates of deposit, with original maturities of three months or less from the date of purchase, are grouped into cash and temporary investments. The cash and investment pool discussed above is considered cash, since it has the same characteristics as a demand deposit account.

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(1) Continued

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. All residual balances outstanding between the 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 receivables with corresponding reservations of fund balance by the advancing fund.

Provisions for uncollectible advances to component units are based upon the terms of the notes, which are non-interest bearing, unsecured with the City. Provisions have been made for the EDA advance of \$1,319,095 and the Port Authority advance of \$944,407.

Provisions for uncollectible water, sewer, stormwater, and emergency medical bills are based upon a 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 quarterly payments due September 30, December 30, March 30, 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, 2005, less an allowance for uncollectible amounts and taxes not collected

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(1) Continued

within 45 days after year end. The tax rate for 2006 was \$1.21 per \$100 of assessed value with an additional \$.02 per \$100 of assessed value for mosquito control services.

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. The current year personal property taxes reported as revenue are the levies on assessed valuation at January 1, 2006 less an allowance for uncollectible amounts and taxes not collected within 45 days after year end. The tax rate for 2006 was \$4.00 per \$100 of assessed value with an additional \$.08 per \$100 of assessed value for mosquito control services.

Inventories and Prepaids

Inventory consists of expendable materials and supplies held for future consumption and is valued at cost using the first-in, first-out (FIFO) method. All inventories of governmental funds and proprietary funds are recorded under the consumption method as expenditures or expenses when consumed, rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include land, buildings, improvements, equipment, vehicles, and infrastructure assets (i.e. roads, bridges, drainage, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements. Drainage infrastructure assets are capitalized in the Stormwater Management Fund to the extent they are funded with stormwater fees. All other drainage is capitalized in the governmental activities column in the government-wide financial statements.

Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(1) Continued

normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest expense was capitalized during fiscal year ended June 30, 2006.

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:

Capital Assets	Useful Lives
Buildings	10-50 years
Improvements other than buildings	10-45 years
Equipment and vehicles	3-50 years
Infrastructure	10-50 years

Vacation, Sick Pay, Accrued Overtime Leave, and Compensatory Leave

City employees are granted vacation, sick pay, accrued overtime leave, and compensatory leave in varying amounts as services are provided. Employees may accumulate, subject to certain limitations, unused vacation, sick pay, accrued overtime leave, and compensatory leave earned and, upon retirement, termination, or death, may be compensated for certain amounts at their most current rate of pay. The costs of accumulated vacation, overtime leave, and compensatory leave are accrued as a liability as the benefits are earned by employees if attributable to services already rendered and compensation through paid time off or some other means is probable. Sick leave liability is accrued as the benefits are earned by employees if it is probable the City will compensate the employees for the benefits through cash payments conditioned upon the employees' termination or retirement. Compensatory leave is paid up to 72 hours on December 31, when those records are purged. 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.

Long-term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable Statement of Net Assets. Bond premiums and discounts, as well as issuance and

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(1) Continued

refunding costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount and refunding costs. 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 and refunding 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 and refunding costs are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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 do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. However, fund balances in the fund financial statements at year end have been accordingly reserved.

Designated Fund Balances

The City charter requires that a minimum of 6% of the total General Fund revenue be designated for emergency use and cash flow needs throughout the fiscal year. In addition, the City Council has established that an additional 5% of the total General Fund revenue be designated for emergency operating purposes.

Net Assets

The government-wide statement of net assets reports \$32,080,786 of expendable restricted net assets for other purposes, of which \$28,188,802 is restricted by enabling legislation.

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(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, Section 2.2-4400 et. Seq. of the Code of Virginia, or covered by federal depository insurance. The cash balance, as of June 30, 2006 is \$67,093,515 including petty cash of \$30,900 and cash in the fiduciary fund of \$12,353. The restricted cash balance as of June 30, 2006 is \$3,042,891 which consists of a repurchase agreement of \$2,036,925 and cash of \$1,005,966 being held by the Commonwealth of Virginia.

Investments

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction 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, and the State Treasurer’s Local Government Investment Pool (LGIP). Statutes limit the localities to a maximum percentage of total investments of 50% for repurchase agreements, 40% for bankers acceptances, 35% for commercial paper or 20% for corporate notes.

Investments in Virginia State Non-Arbitrage Program (SNAP) and the Evergreen Money Market Funds within Parata and Evergreen Investment Advisors are SEC registered open-ended mutual funds. The Local Government Investment Pool (LGIP) is a 2a7 “like” investment pool. The Virginia Public School Authority bond covenants require the bond proceeds to be invested with the Virginia State Non-Arbitrage Program which is monitored by the Virginia Treasury Board. These external investment pools are considered pooled investments in nature and are not evidenced by securities that exist in physical or book entry form. Shares purchased through the external investment pools maintain a fair value equal to the share value within these funds. The Local Government Investment Pool is audited by the Auditor of Public Accounts, and is under the supervision of the Virginia Treasury Board. All Money Market Funds have a fair market value equivalent to a \$1.00 share.

CITY OF CHESAPEAKE, VIRGINIA

Schedule K, Continued

Notes to Basic Financial Statements
June 30, 2006

(2) Continued

Investments by type at year-end are shown below:

	Average Days to Maturity	Minimum Legal Rating	AAA	AA	A1P1	A1+P1	Unrated
Investments:							
Commercial paper	77	A1/P1/F1	\$ -	-	22,105,080	40,903,864	-
U.S. Government-sponsored coupon securities	271	n/a	72,143,695	-	-	-	-
Corporate notes	196	n/a	1,455,684	5,231,502	-	-	-
Local Government Investment Pool	n/a	n/a	75,040,055	-	-	-	-
Virginia State Non-Arbitrage Program	n/a	n/a	48,266,437	-	-	-	-
Evergreen/U.S. Government Portfolio	n/a	n/a	823,985	-	-	-	-
Money market deposit	n/a	n/a	-	-	-	-	291,476
Repurchase agreement	n/a	n/a	1,695,694	-	-	-	-
Total			\$ 199,425,550	5,231,502	22,105,080	40,903,864	291,476
Restricted investments:							
Money market funds	1	n/a	\$ -	-	-	-	500,000
Virginia State Non-Arbitrage Program	1	n/a	3,978,990	-	-	-	-
Federated U.S. money market fund	1	n/a	4,259,563	-	-	-	-
U.S. Government-sponsored discount securities	27	n/a	1,597,115	-	-	-	-
STI Classic funds	1	n/a	1,839,234	-	-	-	-
Commonwealth Cash Reserve Fund	n/a	n/a	3,771,398	-	-	-	-
Total			\$ 15,446,300	-	-	-	500,000

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(2) Continued

Credit Risk

Generally credit risk is the risk that, an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by nationally recognized statistical rating organizations. Presented above is the minimum rating required by the Virginia State Code, the City's investment policy, or the debt agreements as well as the actual investment ratings as of June 30, 2006.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The City of Chesapeake investment policy requires all certificates of deposit and time deposits of banks and savings and loan institutions located in the Commonwealth of Virginia that are under the Virginia statute of public funds to be approved depositories by the State Treasury Board. These certificates of deposit and time deposits must be federally insured to the maximum extent possible and/or collateralized under the Virginia Security for Public Deposit Act, section 2.1-359 through 2.1-370 of the Code of Virginia. At June 30, 2006, the City had custodial credit risk related to \$1,695,694 in an overnight repurchase agreement that was held by a financial institution's trust department or agent, but not in the City's name. This overnight repurchase agreement is included in the City's deposits.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments. The City of Chesapeake investment policy requires securities be purchased only from brokerage firms/institutions with offices that are under the Commonwealth of Virginia's supervision and located in the Commonwealth of Virginia. The City holds no investments that are at risk.

Concentration of Credit Risk

The City places no limit on the amount that can be invested in any one issuer beyond that stipulated by Virginia State Code. At June 30, 2006, the City was holding investments in Federal Home Loan Bank of \$67,750,000 which represented 24% of the City's total investments. The City held no other investments by any one issuer that represented over

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(2) Continued

five percent of the City's total investments, other than U.S. Treasury securities, mutual funds, and external investment pools.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits U.S. Treasury and U.S. Agency securities to maturities of less than five years; guaranteed investment contracts to maturities of less than 30 years; bankers acceptances to maturities of less than 180 days; commercial paper to maturities of less than 270 days; and corporate notes to maturities of less than 5 years.

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements. These debt agreements limit U.S. Agency securities to maturities of less than 5 years and guaranteed investment contracts to maturities of less than 30 years.

The City assumes all investments will be held until maturity or until called at their par value. However, an investment may be sold at an earlier date to meet certain obligations or if the investment's credit quality drops. This makes the City's investments sensitive to market rate fluctuations. To mitigate the impact of market rate fluctuations, the City maintains enough liquidity to meet its short-term needs with a smaller portion invested in long-term government-sponsored organizations and high-quality corporate notes.

Amounts Relating to Component Units

The cash and investments of the Public Schools and the Mosquito Control Commission component units have been pooled with the cash and investments of the primary government and, therefore, are included in the above information. The remaining component units, with cash and investments amounting to \$1,819,528, have been excluded because risk information is not available.

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(2) Continued

A reconciliation of the carrying value of deposits and investments as reported above to amounts reported in the Statement of Net Assets and Statement of Fiduciary Net Assets for the reporting entity is as follows:

Deposits and investments reported above:		
Pooled deposits	\$	67,093,515
Restricted deposits		3,042,891
Investments		283,903,772
Other component units		1,819,528
<hr/>		
Total deposits and investments reported above	\$	355,859,706
<hr/>		
Per Schedules A and H:		
Cash and temporary investments	\$	239,675,881
Cash and temporary investments with trustee		3,647,407
Cash restricted for debt service		491,024
Cash restricted for debt service with trustee		3,345,633
Cash with State Set-Aside		1,005,966
Capital construction:		
Cash and temporary investments		97,563,126
Cash and temporary investments with trustee		10,130,669
<hr/>		
Total capital construction		107,693,795
<hr/>		
Total cash and temporary investments per Schedules A and H	\$	355,859,706

(3) Accounts Receivable and Payable

Accounts receivable, net of allowance for uncollectibles, in the Statement of Net Assets as of June 30, 2006 are as follows:

	Governmental Activities	Business-Type Activities
Due from Commonwealth of Virginia	\$ 38,989,854	-
Due from Federal government	4,216,167	-
Due from customers	1,596,081	8,585,148
Property taxes receivable	14,349,235	-
Interest receivable	1,273,494	267,423
Other	8,056,782	-
<hr/>		
Total accounts receivable	\$ 68,481,613	8,852,571

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(3) Continued

Accounts receivable, net of allowance for uncollectibles, in the governmental funds as of June 30, 2006 are as follows:

	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds
Due from Commonwealth of Virginia	\$ 36,141,001	-	741,415	2,107,438
Due from Federal government	11,960	-	405,875	3,798,332
Property taxes receivable	14,349,235	-	-	-
Interest receivable	885,523	256,281	13,784	2,449
Other	8,209,214	-	1,566	789,225
Total accounts receivable	\$ 59,596,933	256,281	1,162,640	6,697,444

Property taxes receivable in the General Fund as of June 30, 2006 are as follows:

	Taxes Receivable	Allowance for Uncollectible Amounts	Net Taxes Receivable
Real property	\$ 6,311,440	1,313,113	4,998,327
Personal property	12,840,105	3,497,328	9,342,777
Public service corporations	8,131	-	8,131
Total property taxes receivable	\$ 19,159,676	4,810,441	14,349,235

The total allowance for uncollectible amounts in the General Fund is \$6,957,296, which includes a \$2,086,149 allowance for uncollectible emergency medical service fees and a \$60,706 allowance for uncollectible vehicle license fees.

Accounts receivable, net of allowance for uncollectibles, in the proprietary funds as of June 30, 2006 are as follows:

	Due From Customers & Other	Interest Receivable
Public Utilities Fund	\$ 6,922,361	194,163
Chesapeake Expressway Fund	261,409	-
Stormwater Management Fund	1,373,599	33,744
Other enterprise funds	27,779	39,516
Internal Service Funds	652,858	115,457
Total accounts receivable	\$ 9,238,006	382,880

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(3) Continued

Accounts payable, deposits, and accrued expenses in the Statement of Net Assets as of June 30, 2006 are as follows:

	Governmental Activities	Business-Type Activities
Accounts payable	\$ 5,507,225	1,793,031
Deposits	3,841,621	665,660
Accrued expenses, excluding interest	4,540,976	38,439
Construction projects payable	6,016,499	641,644
Accrued interest	4,611,656	1,426,407
Total accounts payable, deposits, and accrued expenses	\$ 24,517,977	4,565,181

Accounts payable, deposits, and accrued expenditures in the governmental funds as of June 30, 2006 are as follows:

	Accounts Payable and Deposits	Accrued Expenditures, Excluding Interest	Construction Projects Payable	Accrued Interest
General Fund	\$ 7,240,825	4,449,366	-	-
Debt Service Fund	21,464	-	-	56,650
Capital Projects Fund	-	-	6,016,499	-
Other governmental funds	1,542,914	70,081	-	-
Total accounts payable, deposits, and accrued expenditures	\$ 8,805,203	4,519,447	6,016,499	56,650

Accounts payable, deposits, and accrued expenses in the proprietary funds as of June 30, 2006 are as follows:

	Accounts Payable and Deposits	Accrued Expenses, Excluding Interest	Construction Projects Payable	Accrued Interest
Public Utilities Fund	\$ 2,358,576	24,079	122,498	516,131
Chesapeake Expressway Fund	27,656	8,077	5,000	910,276
Stormwater Management Fund	14,808	214	514,146	-
Other enterprise funds	57,650	6,069	-	-
Internal Service Funds	543,643	21,529	-	-
Total accounts payable, deposits, and accrued expenses	\$ 3,002,333	59,968	641,644	1,426,407

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(4) Capital Assets

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

**Primary government
Governmental activities:**

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 261,849,156	9,855,120	(12,135)	271,692,141
Construction in progress	56,231,506	49,433,676	(5,391,581)	100,273,601
Total capital assets, not being depreciated	318,080,662	59,288,796	(5,403,716)	371,965,742
Capital assets, being depreciated:				
Buildings	509,769,113	4,404,719	-	514,173,832
Improvements other than buildings	24,821,799	9,834	(7,635)	24,823,998
Equipment and vehicles	74,385,026	5,515,852	(5,185,153)	74,715,725
Infrastructure	974,223,940	22,366,218	-	996,590,158
Total capital assets, being depreciated	1,583,199,878	32,296,623	(5,192,788)	1,610,303,713
Less accumulated depreciation for:				
Buildings	(132,643,849)	(10,818,186)	-	(143,462,035)
Improvements other than buildings	(6,083,962)	(1,647,668)	4,207	(7,727,423)
Equipment and vehicles	(47,903,652)	(5,635,604)	5,066,322	(48,472,934)
Infrastructure	(694,712,695)	(21,492,121)	-	(716,204,816)
Total accumulated depreciation	(881,344,158)	(39,593,579)	5,070,529	(915,867,208)
Total capital assets being depreciated, net	701,855,720	(7,296,956)	(122,259)	694,436,505
Capital assets, net	\$ 1,019,936,382	51,991,840	(5,525,975)	1,066,402,247

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(4) Continued

Depreciation expense for governmental activities was charged to functions of the primary government for the year ended June 30, 2006 as follows:

General government	\$	6,334,843
Public safety		409,097
Public works		75,645
Public welfare		114,857
Parks		29,440
Education		6,676,333
Net unallocated portion (depreciation of general infrastructure assets)		21,492,121
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets		4,461,243
Total depreciation expense, governmental activities	\$	39,593,579

Depreciation and amortization expense, net unallocated portion, for governmental activities of \$21,445,311 includes the unallocated portion of depreciation expense noted above of \$21,492,121, loss on disposal of \$12,135, amortization expense of bond costs of issuance, deferred bond premiums and refunding costs of \$58,945.

Construction in progress for governmental activities is composed of the following:

Functions	Project authorization	Expended to June 30, 2006	Committed	Required Future Financing
General government	\$ 38,770,451	20,003,972	18,766,479	none
Public safety	1,700,891	576,676	1,124,215	none
Public works	63,894,587	33,268,847	30,625,740	none
Parks	12,120,407	8,271,337	3,849,070	none
Public welfare	5,174,438	5,096,107	78,331	none
Education	67,595,917	33,056,662	34,539,255	7,134,716
Total	\$ 189,256,691	100,273,601	88,983,090	7,134,716

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(4) Continued

Business-type activities:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 17,652,801	3,914,265	-	21,567,066
Construction in progress	83,305,098	12,839,051	(81,935,008)	14,209,141
Total capital assets, not being depreciated	100,957,899	16,753,316	(81,935,008)	35,776,207
Capital assets, being depreciated:				
Buildings	5,493,339	-	-	5,493,339
Improvements other than buildings	1,333,914	141,805	-	1,475,719
Equipment and vehicles	8,890,022	78,839	(44,267)	8,924,594
Infrastructure	481,743,070	88,976,899	-	570,719,969
Total capital assets, being depreciated	497,460,345	89,197,543	(44,267)	586,613,621
Less accumulated depreciation for:				
Buildings	(488,311)	(139,189)	-	(627,500)
Improvements other than buildings	(366,115)	(35,036)	-	(401,151)
Equipment and vehicles	(5,247,486)	(761,566)	44,267	(5,964,785)
Infrastructure	(125,483,444)	(12,276,099)	-	(137,759,543)
Total accumulated depreciation	(131,585,356)	(13,211,890)	44,267	(144,752,979)
Total capital assets being depreciated, net	365,874,989	75,985,653	-	441,860,642
Capital assets, net	\$ 466,832,888	92,738,969	(81,935,008)	477,636,849

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(4) Continued

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

Public Utilities	\$	8,164,818
Chesapeake Expressway		4,593,185
Stormwater Management		219,280
Northwest River Park		3,690
Jordan Bridge		168,593
Recreation		62,324
<hr/>		
Total depreciation expense, business-type activities	\$	13,211,890

The estimated cost to complete the construction in progress of the business-type activities amounted to approximately \$21,286,088 at June 30, 2006. There was no capitalized interest incurred this fiscal year related to construction in progress; however, there is \$2,247,492 of capitalized interest included in infrastructure assets in the Chesapeake Expressway Fund.

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(4) Continued

Public Utilities Fund:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 5,839,996	3,886,022	-	9,726,018
Construction in progress	78,510,511	9,088,754	(79,860,091)	7,739,174
Total capital assets, not being depreciated	84,350,507	12,974,776	(79,860,091)	17,465,192
Capital assets, being depreciated:				
Buildings	73,598	-	-	73,598
Improvements other than buildings	1,260,121	141,805	-	1,401,926
Equipment and vehicles	2,995,180	66,719	(30,223)	3,031,676
Infrastructure	387,640,748	86,930,224	-	474,570,972
Total capital assets, being depreciated	391,969,647	87,138,748	(30,223)	479,078,172
Less accumulated depreciation for:				
Buildings	(23,342)	(2,495)	-	(25,837)
Improvements other than buildings	(354,744)	(31,346)	-	(386,090)
Equipment and vehicles	(2,341,867)	(154,949)	30,223	(2,466,593)
Infrastructure	(106,230,260)	(7,976,028)	-	(114,206,288)
Total accumulated depreciation	(108,950,213)	(8,164,818)	30,223	(117,084,808)
Total capital assets being depreciated, net	283,019,434	78,973,930	-	361,993,364
Capital assets, net	\$ 367,369,941	91,948,706	(79,860,091)	379,458,556

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(4) Continued

Chesapeake Expressway Fund:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 11,105,618	-	-	11,105,618
Construction in progress	56,080	739,786	(677,116)	118,750
Total capital assets, not being depreciated	11,161,698	739,786	(677,116)	11,224,368
Capital assets, being depreciated:				
Buildings	5,389,295	-	-	5,389,295
Equipment and vehicles	5,052,399	12,121	-	5,064,520
Infrastructure	81,678,568	677,117	-	82,355,685
Total capital assets, being depreciated	92,120,262	689,238	-	92,809,500
Less accumulated depreciation for:				
Buildings	(448,093)	(134,732)	-	(582,825)
Equipment and vehicles	(2,250,735)	(540,451)	-	(2,791,186)
Infrastructure	(15,540,177)	(3,918,002)	-	(19,458,179)
Total accumulated depreciation	(18,239,005)	(4,593,185)	-	(22,832,190)
Total capital assets being depreciated, net	73,881,257	(3,903,947)	-	69,977,310
Capital assets, net	\$ 85,042,955	(3,164,161)	(677,116)	81,201,678

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(4) Continued**Stormwater Management Fund:**

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 323,493	28,243	-	351,736
Construction in progress	4,738,507	2,997,599	(1,397,801)	6,338,305
Total capital assets, not being depreciated	5,062,000	3,025,842	(1,397,801)	6,690,041
Capital assets, being depreciated:				
Equipment and vehicles	278,451	-	(14,044)	264,407
Infrastructure	7,373,310	1,369,558	-	8,742,868
Total capital assets, being depreciated	7,651,761	1,369,558	(14,044)	9,007,275
Less accumulated depreciation for:				
Equipment and vehicles	(249,960)	(3,842)	14,044	(239,758)
Infrastructure	(530,598)	(215,438)	-	(746,036)
Total accumulated depreciation	(780,558)	(219,280)	14,044	(985,794)
Total capital assets being depreciated, net	6,871,203	1,150,278	-	8,021,481
Capital assets, net	\$ 11,933,203	4,176,120	(1,397,801)	14,711,522

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(4) Continued**Discretely presented component unit - Public Schools:**

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land and land improvements	\$ 16,846,470	-	-	16,846,470
Construction in progress	2,102,195	2,330,675	2,974,043	1,458,827
Total capital assets, not being depreciated	18,948,665	2,330,675	2,974,043	18,305,297
Capital assets, being depreciated:				
Buildings	36,761,695	8,183	-	36,769,878
Improvements other than buildings	2,433,648	2,976,043	-	5,409,691
Furniture, equipment, vehicles, and textbooks	50,619,804	6,836,223	(2,218,409)	55,237,618
Total capital assets, being depreciated	89,815,147	9,820,449	(2,218,409)	97,417,187
Less accumulated depreciation for:				
Buildings	(5,186,227)	(640,844)	-	(5,827,071)
Improvements other than buildings	(1,933,426)	(131,798)	-	(2,065,224)
Furniture, equipment, vehicles, and textbooks	(27,398,963)	(4,877,654)	1,961,292	(30,315,325)
Total accumulated depreciation	(34,518,616)	(5,650,296)	1,961,292	(38,207,620)
Total capital assets being depreciated, net	55,296,531	4,170,153	(257,117)	59,209,567
Capital assets, net	\$ 74,245,196	6,500,828	2,716,926	77,514,864

Depreciation expense of \$5,650,296 was charged to the Public Schools' governmental functions.

(5) Deferred Revenues

Deferred revenues represent amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable but not available. Deferred revenues for the primary government's fund-based financial statements are comprised of the following:

	General Fund	Special Revenue Funds	Enterprise Funds
Taxes	\$ 10,774,296	-	-
Personal Property Tax Relief Act	6,135,477	-	-
Emergency medical service fees	566,672	-	-
Stormwater management fees	-	-	2,339,722
Other	31,088	782,532	60,756
Total deferred revenues	\$ 17,507,533	782,532	2,400,478

Schedule K, Continued

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(6) Long-Term Obligations

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

	Balances at July 1, 2005	Increases	Decreases	Balances at June 30, 2006	Due Within One Year
Bonds payable:					
General obligation bonds	\$ 359,081,570	42,800,000	(25,524,135)	376,357,435	28,509,763
Lease revenue bond with general obligation pledge	4,885,000	-	(110,000)	4,775,000	115,000
	363,966,570	42,800,000	(25,634,135)	381,132,435	28,624,763
Deferred amounts:					
Plus bond premiums	17,969,704	1,132,239	(1,644,102)	17,457,841	1,680,300
Less refunding costs	(13,835,171)	-	1,461,869	(12,373,302)	(1,461,869)
Total bonds payable	368,101,103	43,932,239	(25,816,368)	386,216,974	28,843,194
Other long-term obligations:					
Net pension obligation	1,589,680	18,945,290	(18,956,558)	1,578,412	-
Certificates of participation	2,060,000	-	(2,060,000)	-	-
Notes payable	48,578	-	(48,578)	-	-
Arbitrage	126,757	-	(60,141)	66,616	-
Compensated absences	14,979,483	12,079,624	(11,712,294)	15,346,813	6,614,477
Literary loans	5,726,848	-	(549,493)	5,177,355	549,493
Capital leases	12,112,890	4,310,600	(4,253,110)	12,170,380	3,943,016
Capital leases to component unit	34,335,000	-	(2,585,000)	31,750,000	2,835,000
Supplemental Payments Agreement	25,870,000	-	(1,665,000)	24,205,000	1,045,000
Liability for self-insurance losses	20,996,448	6,251,552	(6,007,205)	21,240,795	4,248,159
Section 108 loan payable	2,255,000	-	(260,000)	1,995,000	280,000
Deferred amounts:					
Plus refunding gains on Supplemental Payments Agreement	-	670,000	-	670,000	41,875
Total long-term obligations	\$ 488,201,787	86,189,305	(73,973,747)	500,417,345	48,400,214

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(6) Continued

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

	Balances at July 1, 2005	Increases	Decreases	Balances at June 30, 2006	Due Within One Year
Public Utilities:					
Bonds payable:					
General obligation bonds	\$ 135,351,558	-	(4,917,371)	130,434,187	4,929,831
Deferred amounts:					
Plus bond premiums	6,376,377	-	(324,671)	6,051,706	324,672
Less bond discounts	(36,607)	-	4,216	(32,391)	(4,216)
Less refunding costs	(3,799,559)	-	289,714	(3,509,845)	(289,714)
Total bonds payable	137,891,769	-	(4,948,112)	132,943,657	4,960,573
Notes payable	575,000	-	(115,000)	460,000	115,000
Arbitrage	37,124	-	(37,124)	-	-
Compensated absences	753,681	577,021	(523,844)	806,858	347,756
	139,257,574	577,021	(5,624,080)	134,210,515	5,423,329
Chesapeake Expressway:					
Revenue bonds	21,630,000	-	-	21,630,000	-
Less bond discount	(251,531)	-	10,481	(241,050)	(10,481)
Total bonds payable	21,378,469	-	10,481	21,388,950	(10,481)
Due to Commonwealth of Virginia	71,958,461	402,777	(1,283,120)	71,078,118	566,390
Compensated absences	73,739	56,098	(48,825)	81,012	34,916
	93,410,669	458,875	(1,321,464)	92,548,080	590,825
Stormwater Management:					
Compensated absences	99,729	86,969	(88,658)	98,040	42,255
Nonmajor business-type activities:					
Compensated absences	53,566	38,341	(35,447)	56,460	24,335
Total long-term obligations	\$ 232,821,538	1,161,206	(7,069,649)	226,913,095	6,080,744

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(6) Continued

A summary of changes in long-term obligations for the discretely presented component unit - Public Schools for the year ended June 30, 2006 follows:

	Balances at July 1, 2005	Increases	Decreases	Balances at June 30, 2006	Due Within One Year
Early retirement plan	\$ 1,244,212	-	(1,244,212)	-	-
Compensated absences	25,848,462	2,904,153	(1,084,501)	27,668,114	1,180,000
Net pension obligation	96,693	138	-	96,831	-
Liability for self-insurance losses	1,037,323	3,973,249	(3,722,285)	1,288,287	1,288,287
Capital leases	6,780,958	2,500,000	(2,292,600)	6,988,358	3,200,058
Total long-term obligations	\$ 35,007,648	9,377,540	(8,343,598)	36,041,590	5,668,345

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).

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 certain school property that is purchased with City long-term obligations. However, the Public Schools are still tasked with all care, management, and control over these properties.

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(6) Continued

(b) Outstanding bonds and loans at June 30, 2006 are comprised of the following issues:

	Remaining Interest Rates	Amount Outstanding
Governmental activities - General Obligation bonds		
1993 Public Improvement Refunding bonds	5.25% - 5.50%	\$ 12,050,813
1994 Public Improvement bonds	5.00%	5,275,000
1994A School bonds	6.10% - 6.60%	3,983,857
1995 School bonds	5.40%	6,000,000
1996 Public Improvement bonds		
1996A School bonds	5.10% - 6.10%	6,545,000
1997A School bonds	5.35% - 6.10%	10,260,000
1998 Public Improvement bonds	4.30% - 5.00%	15,985,000
1998A School bonds	4.35% - 5.10%	5,330,000
1999A School bonds	5.10% - 6.10%	7,000,000
2000A School bonds	5.10% - 5.60%	6,725,000
2001A School bonds	4.85% - 5.60%	5,945,000
2001B School bonds	3.10% - 5.35%	1,417,765
2001 Public Improvement bonds	5.25% - 5.50%	2,260,000
2001 Public Improvement Refunding bonds	5.00% - 5.50%	48,750,000
2002A School bonds	5.10% - 5.60%	4,840,000
2002B School bonds	4.10% - 4.35%	4,035,000
2003 School Refunding bonds	2.50% - 5.25%	81,155,000
2003A School bonds	4.10% - 5.35%	2,125,000
2003A Public Improvement bonds	2.00% - 4.20%	11,215,000
2004A Public Improvement Refunding bonds	5.00%	60,025,000
2003 Lease Revenue bond with general obligation pledge	4.39%	4,775,000
2005A Public Improvement bonds	3.00% - 4.75%	13,360,000
2005A School bonds	3.10% - 5.10%	19,275,000
2005B School bonds	4.60% - 5.10%	9,495,000
2006A School bonds	4.48% - 5.10%	17,440,000
2006A Public Improvement bonds	4.25% - 4.50%	15,865,000
		381,132,435
Add unamortized bond premiums		17,457,841
Less deferred refunding costs		(12,373,302)
Total general obligation bonds, governmental activities	\$	386,216,974
Governmental activities - literary loans		
School literary loans, collateralized by certain school buildings	3.00%	\$ 5,177,355
Business-type activities		
Public Utilities - General Obligation bonds		
1993 Public Improvement Refunding bonds	5.25% - 5.50%	\$ 2,594,187
1995A Water and Sewer bonds	5.00%	23,100,000
2001 Water and Sewer Refunding bonds	3.63% - 4.25%	5,980,000
2003B Water and Sewer bonds	2.00% - 5.00%	52,470,000
2003C Water and Sewer Refunding bonds	2.00% - 3.50%	7,350,000
2004B Water and Sewer Refunding bonds	2.00% - 5.00%	32,470,000
2005B Water and Sewer Refunding bonds	3.00% - 4.00%	6,470,000
		130,434,187
Add unamortized bond premiums		6,051,706
Less unamortized bond discount		(32,391)
Less deferred refunding costs		(3,509,845)
Total Public Utilities bonds	\$	132,943,657
Chesapeake Expressway - Revenue bonds:		
1999A Toll Road Revenue bonds	5.63%	\$ 21,630,000
Less unamortized bond discount		(241,050)
Total Chesapeake Expressway bonds	\$	21,388,950

Schedule K, Continued

Callable	Noncallable	Call Premium
-	12,050,813	-
5,275,000	-	.25%-2.00%
-	3,983,857	-
6,000,000	-	.00%-2.00%
-	-	-
5,355,000	1,190,000	.00%-3.00%
7,695,000	2,565,000	.00%-3.00%
13,090,000	2,895,000	.00%-2.00%
4,100,000	1,230,000	.00%-2.00%
5,000,000	2,000,000	.00%-2.00%
5,060,000	1,665,000	.00%-2.00%
4,270,000	1,675,000	.00%-2.00%
-	1,417,765	-
1,865,000	395,000	.00 %
18,410,000	30,340,000	.00 %
3,350,000	1,490,000	.00%-1.00%
-	4,035,000	-
24,425,000	56,730,000	.00 %
1,520,000	605,000	.00%-1.00%
7,475,000	3,740,000	.00 %
9,515,000	50,510,000	.00%-1.00%
4,540,000	235,000	.00%-2.00%
7,620,000	5,740,000	.00%
11,980,000	7,295,000	.00% - 1.00%
5,910,000	3,585,000	.00% - 1.00%
10,840,000	6,600,000	.00% - 1.00%
9,540,000	6,325,000	.00%
172,835,000	208,297,435	
-	5,177,355	-
-	2,594,187	-
23,100,000	-	.00%-2.00%
-	5,980,000	-
44,025,000	8,445,000	.00 %
2,460,000	4,890,000	.00 %
19,130,000	13,340,000	.00%-1.00%
2,680,000	3,790,000	.00%
91,395,000	39,039,187	
20,405,000	1,225,000	.00% - 1.00%

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(6) Continued

(c) The following table summarizes the City's future debt service requirements for general obligation bonds, revenue bonds, and literary loans for governmental activities and business-type activities.

Year ending June 30:	Governmental Activities				Business-Type Activities			
	Bonds		Literary loans		Public Utilities - Bonds		Chesapeake Express	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	28,624,763	18,413,742	549,493	155,321	4,960,573	5,920,427	-	-
2008	29,636,076	17,136,730	549,493	138,836	4,718,897	5,772,804	385,000	385,000
2009	31,942,112	15,643,665	549,493	122,351	4,819,154	5,610,699	410,000	410,000
2010	31,183,360	14,079,859	549,493	105,866	4,595,563	5,414,012	430,000	430,000
2011	30,897,574	12,520,069	549,493	89,381	4,455,000	5,218,365	455,000	455,000
2012-2016	148,434,866	38,433,455	1,631,746	246,525	25,545,000	23,055,366	2,690,000	2,690,000
2017-2021	50,249,708	12,574,630	798,144	59,861	27,200,000	17,084,581	3,535,000	3,535,000
2022-2026	28,833,976	3,588,949	-	-	33,910,000	9,735,431	4,650,000	4,650,000
2027-2031	1,330,000	33,915	-	-	13,735,000	3,750,250	6,120,000	6,120,000
2032-2033	-	-	-	-	6,495,000	491,000	2,955,000	2,955,000
	\$ 381,132,435	132,425,014	5,177,355	918,141	130,434,187	82,052,936	21,630,000	21,630,000

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(6) Continued

- (d) In June 2006, the City issued \$15,865,000 of general obligation public improvement bonds with a true interest cost of 4.38% and a premium of \$59,276. The bonds were issued to fund various public improvements including, but not limited to, an animal shelter, street and drainage improvements, and a fire station.
- (e) In May 2006, the City sold \$17,440,000 of general obligation school bonds to the Virginia Public School Authority at a true interest cost of 4.50% with a premium of \$564,791. The bonds were issued to partially fund the construction of a new high school.
- (f) In November 2005, the City sold \$9,495,000 of general obligation school bonds to the Virginia Public School Authority at a true interest cost of 4.33% with a premium of \$508,172. The bonds were issued to partially fund the construction of a new high school.
- (g) In December 2003, the CSB of Chesapeake, Inc., a blended component unit reported as a special revenue fund of the City, issued a \$4,940,000 lease revenue bond with a fixed interest rate of 4.39%. The City has pledged its full faith and credit for this obligation, which was incurred to construct the Community Services Board building. The holding bank may require prepayment of this bond on January 1, 2014, with at least 90 days written notice to the City. Therefore, although the bond has a maturity of July 1, 2030, the remaining principal is reflected as being due in 2014. At June 30, 2006, \$4,775,000 was outstanding.
- (h) In July 1999, the City sold \$21,630,000 Chesapeake Expressway Toll Road Revenue Bonds with a stated interest rate of 5.625%. An original issue discount of \$314,414 was offered, for a true interest rate on the issue of 5.824%. The bonds, together with state and federal funds, financed a \$116 million toll road project. This toll road began operations in 2001. Revenues of the Chesapeake Expressway Enterprise Fund are used as set forth in the indenture of trust to fund operations and maintenance and debt service on the toll road revenue bonds.

In addition, the City entered into a "City-State Agreement" with the Virginia Department of Transportation (VDOT), in which the City will repay with interest certain contributions provided by VDOT, once all funding requirements for the toll road revenue bonds have been met per the indenture and the project generates sufficient net revenues. State contributions to be repaid as of June 30, 2006 amounted

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(6) Continued

to \$71,078,118. Revenues generated from the project were used to make a \$1,283,120 repayment of Toll Facilities Revolving Account (TFRA) payment to VDOT. No payment schedule has been established.

- (i) In July 1997, the Commonwealth Transportation Board issued \$33,075,000 of Commonwealth of Virginia transportation program revenue bonds. The net proceeds were used to finance the City's Oak Grove Connector project. These bonds are not obligations of the City. However, at the time of issuance, the City entered into a Supplemental Payments Agreement (SPA) with the Commonwealth Transportation Board to make annual payments equal to the debt service payments on these bonds based on the original terms of the bonds including principal amount of \$33,075,000, interest rates ranging from 5.00% to 5.25%, and a maturity date of 2022. In May 2006 the Commonwealth Transportation Board refunded the bonds maturing in the years 2008 – 2022 in the amount of \$23,830,000. The Supplemental Payments Agreement has been adjusted accordingly to reflect a total debt service savings of \$1,615,054 including principal savings in the amount of \$670,000. The SPA is being paid from recordation tax revenues of the City which have been set aside for such purpose in the Transportation Improvement Program Set-Aside Fund for the account of the City. The SPA states that if the City's portion of State recordation taxes dedicated by the City Council to pay the debt service for the project is not sufficient to cover the projected annual debt service on the bonds, the City will allocate, on an annual basis, subject to appropriation, certain local revenues to pay an amount equal to the annual debt service on the bonds, less the City's share of State recordation taxes already dedicated to the Set-Aside Fund. Payments on the SPA are not secured by a pledge of the City's full faith and credit. The City made a \$995,000 principal payment from the Transportation Improvement Program Set-Aside Fund on the SPA during the year.

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(6) Continued

The following table summarizes the City’s debt service requirements for the SPA as of June 30, 2006.

Fiscal year ending June 30:	Principal	Interest
2007	\$ 1,045,000	1,197,144
2008	1,095,000	1,132,312
2009	1,140,000	1,085,775
2010	1,190,000	1,037,325
2011	1,240,000	986,750
2012-2016	7,195,000	3,939,250
2017-2021	9,180,000	1,950,750
2022	2,120,000	106,000
Total payments	\$ 24,205,000	11,435,306

- (j) In November 1996, the City financed a new Chesapeake Circuit Court building through financing arrangements with the EDA, a component unit of the City. Under the arrangement, the EDA issued \$24,460,000 in public facility lease revenue bonds to finance the construction, and the City leases the building from the EDA. The scheduled payments that the City makes to the trustee are used to pay debt service on the bonds. The 20-year schedule of rent payments due under this agreement is included in the City’s capital leases to component unit. At June 30, 2006, \$16,515,000 was outstanding.

- (k) In June 1994, the City financed a 320-bed addition to the City jail through a financing arrangement with the EDA. Under the arrangement, the EDA issued \$30,205,000 tax-exempt lease revenue bonds to finance the expansion, and the City leases the jail from the EDA. In March 2005, the EDA issued \$16,765,000 of public facility lease revenue bonds to refund all of the remaining outstanding 1994 bonds. The scheduled payments that the City makes to the trustee are used to pay debt service on the bonds. The 20-year schedule of rent payments due under this agreement is included in the City’s capital leases to component unit. At June 30, 2006, the amount owed by the City under this capital lease obligation was \$15,235,000.

In addition, the Commonwealth of Virginia has agreed to reimburse the City for a portion of the capital costs and financing costs of the City jail project. This agreement was signed in June 1994. At that time, total reimbursement to the City was projected to be \$16,078,836, to be reimbursed on an installment basis for 20 years, and subject to General Assembly approval. In April 2004 and March 2005, portions of the debt related to the City jail project were refunded.

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(6) Continued

Under the agreement the Commonwealth has the right to modify the reimbursement installments in the event of a refunding, but an adjusted schedule has not yet been received from the Commonwealth. Total reimbursements of \$10,048,012 have been received by the City as of June 30, 2006. The current year reimbursement was \$836,726.

- (l) On July 1, 1986, the City issued \$23,380,000 in Certificates of Participation maturing July 1, 2006. The proceeds of these certificates were deposited with a trustee under a trust agreement and used to finance the construction of the City Hall building and a Juvenile Courts building. On February 15, 1993, the City refinanced \$15,505,000 of the 1986 Certificates of Participation by issuing \$17,420,000 of 1993 Certificates of Participation. The final debt service payment, due July 1, 2006, of \$2,173,300 including interest of \$113,300, was made prior to the year ending June 30, 2006. A debt service reserve recorded in the Debt Service Fund of \$2,423,656 is being held with a trustee and will be closed in fiscal year 2007.

(m) Notes payable at June 30, 2006 consisted of the following:

Business-type activities - Public Utilities Fund	460,000
Total notes payable	\$ 460,000

In April 2003, the City agreed to pay \$808,075 to the City of Norfolk for an under-billing of treated water. The payments, without interest, began in fiscal year 2004 and will be made over seven years. The remaining balance at June 30, 2006 is \$460,000.

The following table summarizes the City's payment requirements for the notes payable as of June 30, 2006:

	Business-type Activities Public Utilities Fund	
Fiscal years:		
2007	\$	115,000
2008		115,000
2009		115,000
2010		115,000
Total payments		460,000

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(6) Continued

- (n) Section 148 of the Internal Revenue Code of 1986 requires public entities to refund interest earned in excess of interest paid over the first five years outstanding on tax exempt borrowings. The regulations are applicable to borrowings incurred subsequent to August 1986. The City has calculated the rebate due as if June 30, 2006 was the settlement date, and reflected the liability, if any, in either the Public Utilities Fund, Chesapeake Expressway Fund, or the governmental activities column of the Statement of Net Assets, depending on the bond issue and timing of payment.

The fund balance in the Debt Service Fund, where interest earnings are accumulated for all applicable obligations, has been reserved in an amount equal to the liability in the Statement of Net Assets.

- (o) The future payments by year of accumulated vacation, sick pay, and accrued overtime leave, arbitrage, early retirement plan, net pension obligation, and liability for self-insurance losses are not determinable. However, amounts due within one year for each of these liabilities have been estimated with the exception of the net pension obligation which cannot be estimated. The accumulated vacation, sick pay, and accrued overtime leave liability is generally liquidated by the fund for which the employee works. The arbitrage liability for governmental activities is generally liquidated by the Debt Service Fund. The net pension obligation is generally liquidated by the General Fund, and the liability for Self-Insurance losses is liquidated by the Self-Insurance Fund. The early retirement plan is liquidated by the Public Schools, a component unit.
- (p) In October 1996, the City entered into a Section 108 loan in the amount of \$3,100,000. These funds were used for Community Development and will be repaid in annual installments through August 2011 with remaining interest rates ranging from 6.46% to 6.78%. In September 2003, the City drew an additional \$720,000 against the original \$3,800,000 Section 108 Loan Guarantee authorization, approved by City Council in 1996. Principal payments are due August 1, 2010 and August 1, 2011 in the amounts of \$330,000 and \$390,000 respectively. Interest is paid quarterly on the unpaid principal balance on the first day of February, May, August, and November. The interest rate is equal to 20 basis points (0.2 percent) above the applicable three-month London Interbank Offered Rate (LIBOR). Future debt service payments for the September 2003 draw are based on the interest rate of 5.43% effective June 30, 2006.

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(6) Continued

The following is a schedule of projected future loan payments:

Fiscal year ending June 30:	Principal	Interest
2007	\$ 280,000	\$ 113,915
2008	300,000	95,136
2009	320,000	74,825
2010	340,000	52,859
2011	365,000	26,843
2012	390,000	5,294
Total payments	\$ 1,995,000	368,872

- (q) Under a City charter amendment approved by the General Assembly of Virginia during 1994, City Council may authorize issuance of nonreferendum bonds or notes in any calendar year in an amount not to exceed \$4,500,000 plus the amount of all bonds and notes retired in the prior calendar year, provided that the amount of such bonds or notes together with existing indebtedness of the City does not exceed 8% of the assessed valuation of real estate in the City subject to taxation, as shown by the last preceding assessment for taxes. The charter bond authorization for the calendar year ended December 30, 2005 was \$31,025,000. Any bonds or notes in excess of this amount must either be intended to refund other debt or be supported by a referendum. In any event, however, the total amount of bonds and notes that can be issued by the City is limited to 10% of assessed valuation of real estate. Contractual obligations, other than bonds and notes, are excluded from the City's nonreferendum annual borrowing limit. The total charter bonds authorized but unissued are \$91,527,381 as of June 30, 2006.

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(6) Continued

(r) Computation of Legal Debt Margin

Assessed valuation - real estate	\$ 17,451,186,558
Legal debt limit - 10% of assessed valuation	\$ 1,745,118,656
Amount of debt applicable to legal debt limit:	
General bonded debt	\$ 538,373,977
Plus:	
Notes payable	460,000
Less:	
Self-supporting debt not chargeable to debt limit	83,180,000
Amounts available for debt service	27,015,545
	428,638,432
Legal debt margin available	\$ 1,316,480,224
Percent of:	
Legal debt margin outstanding	24.6%
Legal debt margin available	75.4%
	100.0%
Summary of assessed valuation:	
Public service real estate	\$ 838,595,046
Other city real estate	16,612,591,512
	\$ 17,451,186,558

(s) Management believes the City is in compliance with all significant financial covenants contained in the various bond indentures.

(t) Certain discretely presented component units have significant outstanding long-term debt as follows:

On November 20, 1996, the EDA issued \$24,460,000 of Public Facility Lease Revenue Bonds to finance construction of the City of Chesapeake Court House Project. The bonds are being repaid through City lease payments on the facility. The remaining interest rates on the bonds vary from 5.10% to 6.25%. At June 30, 2006, \$16,515,000 remains outstanding, \$14,230,000 of which is callable.

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(6) Continued

On June 1, 1994, the EDA issued \$30,205,000 of Lease Revenue Bonds to finance construction of the City of Chesapeake Jail Project. The bonds are being repaid through City lease payments on the facility. In March 2005, the EDA issued \$16,765,000 of public facility lease revenue refunding bonds, to refund the remaining outstanding 1994 Public Facility Lease Revenue Bonds of \$18,050,000. At June 30, 2006, \$15,235,000 remains outstanding, of which none are callable.

In October 1998, the City entered into a support agreement with the Chesapeake Airport Authority, to provide a non-binding obligation of the City to consider certain appropriations to the Airport Authority in conjunction with the Airport Authority's issuance of \$2,500,000 Airport Revenue Bonds. The bonds, issued in January 1999, funded the acquisition, construction, and equipping of airplane hangers and related facilities at the Chesapeake Municipal Airport. The City's support extends only to the debt service reserve account for these bonds, as required under the master indenture, to appropriate sufficient funds if a deficit exists in the debt service reserve account. At June 30, 2006, \$1,965,000 remains outstanding, \$1,650,000 of which is callable.

(7) Advances and On Behalf Of Payments

The City has made the following advances and on behalf of payments:

Component Unit – Chesapeake Airport Authority

The General Fund advanced the Airport Authority \$232,000 in 1992 for a runway extension and will be repaid upon the sale of property owned by the Airport Authority. After the property sale, the Airport Authority will make annual payments to the City of one-fifteenth of the remaining advance after reducing the advance by the net proceeds from the sale. If the Airport Authority does not sell this property, annual payments of \$15,467 will be made until the advance is repaid in full, which would be no later than December 15, 2019. The Airport Authority began making the required payments to the City on December 15, 2005.

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(7) Continued

On June 21, 2000, the City Council approved a \$390,000 non-interest bearing loan to the Airport Authority for capital improvements. This advance was made from the Debt Service Fund. Semi-annual payments of \$19,500 began on June 15, 2005 and will continue each year until the loan is repaid in full, which would be no later than December 15, 2014. A reservation of fund balance has been made in the Debt Service Fund for the balance outstanding at June 30, 2006 of \$331,500.

The General Fund also budgeted payments of \$287,279 and made payments of \$287,279 on behalf of the Airport Authority during fiscal year 2006. The City does not intend to collect these payments from the Airport Authority.

Component Unit – Chesapeake Port Authority

The General Fund has advanced \$944,407 to the Port Authority to provide working capital. The City has recorded a valuation allowance of an equal amount because the timing and certainty of collection is unknown. In addition, the General Fund made payments of \$12,954 on behalf of the Port Authority during fiscal year 2006. The City does not intend to collect these payments from the Port Authority.

Component Unit –Economic Development Authority of the City of Chesapeake

On May 13, 1986, the City Council approved an advance to the EDA in a maximum amount of \$1,500,000. At June 30, 2006, \$1,319,095 is outstanding in the General Fund. The City has recorded a valuation allowance of an equal amount because the timing and certainty of collection is unknown. In addition, the City budgeted and made payments of \$223,719 on behalf of the Authority during fiscal year 2006. The City does not intend to collect these payments from the EDA.

Advances from the primary government to its component units as reported on the Statement of Net Assets as of June 30, 2006 is summarized as follows:

Advances to Airport Authority	\$	548,033
Advance to Port Authority		944,407
Advance to EDA		1,319,095
Total advances to component units		2,811,535
Less allowance for uncollectible amounts		(2,263,502)
Net advances to component units	\$	548,033

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(8) Interfund Balances and Transfers

Interfund balances and transfers between governmental funds and interfund balances and transfers between enterprise funds are not included in the government-wide Statement of Net Assets or the government-wide Statement of Activities.

Individual fund interfund receivable and payable balances for the primary government at June 30, 2006 are as follows:

Due To Other Funds	Due From Other Funds	
	Capital Projects Fund	Nonmajor Governmental Funds
General Fund	\$ -	1,379,433
Debt Service Fund	237,437	-
Total interfund balances	\$ 237,437	1,379,433

These interfund balances are a result of individual fund overdrafts of pooled cash reported as a receivable to the General Fund and temporary capital project funding. The amount due from the nonmajor governmental funds of \$1,379,433 is due within one year.

In addition, the City purchased the Chesapeake Conference Center and one acre of land for a parking facility on July 1, 1998 with accumulated reserves in the Debt Service Fund, which were not already dedicated to the repayment of the debt. City Council authorized the purchase and the repayment of \$9,142,398 of funds advanced. The funds are accruing interest and began being repaid to the Debt Service Fund from the Conference Center Special Revenue Fund surpluses beginning in fiscal year 2001, subject to annual appropriation by City Council. The amount repaid in the current year was \$518,967.

Individual fund interfund transfers for the primary government were made for budgeted operating, debt service, and capital purposes. In the year ended June 30, 2006, City Council approved as an emergency appropriation the transfer of \$1,400,000 to the Capital Projects fund for land acquisition in the Poindexter Street corridor of South Norfolk.

CITY OF CHESAPEAKE, VIRGINIA

Schedule K, Continued

Notes to Basic Financial Statements
June 30, 2006

(8) Continued

Interfund transfers for the year ended June 30, 2006 are as follows:

	Transfers From Other Funds							Total
	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Chesapeake Expressway Fund	Nonmajor Enterprise Funds	Internal Service Funds	Internal Service Funds	
General Fund	\$ -	-	262,814	457,389	32,582	144,307	897,092	
Debt Service Fund	41,625,932	2,799,702	2,019,120	-	-	-	46,444,754	
Capital Projects Fund	3,847,093	-	718,753	-	-	-	4,565,846	
Nonmajor governmental funds	18,177,067	-	407,746	-	-	90,280	18,675,093	
Internal Service Funds	657,971	-	68,259	-	-	-	726,230	
Total	\$ 64,308,063	2,799,702	3,476,692	457,389	32,582	234,587	71,309,015	

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(9) Leases

The City and Schools, a component unit, lease certain property under noncancelable capital leases and certain facilities under noncancelable operating leases with scheduled rent increases. At June 30, 2006, the City's capital assets from governmental activities include \$54,665,000 of buildings leased from component units and leased equipment of \$20,362,515. Current year amortization expense for leased assets is \$3,366,167 and is included in depreciation expense. Accumulated amortization expense for these assets is \$13,544,737.

The future minimum capital and operating lease payments and the present value of minimum capital lease payments for governmental activities (including capital leases to component units) as of June 30, 2006 are as follows:

	Capital	Operating
Fiscal years:		
2007	\$ 8,737,719	246,869
2008	8,238,233	252,322
2009	7,146,620	195,809
2010	5,836,487	154,160
2011	5,036,940	74,989
2012-2016	16,695,594	-
2017	2,036,587	-
Total future minimum lease payments	53,728,180	\$ 924,149
Less amounts representing interest	9,807,800	
Present value of minimum capital lease payments	\$ 43,920,380	

Total governmental operating lease payments for the year ended June 30, 2006 were \$462,901.

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(9) Continued

At June 30, 2006, the Schools capital assets include \$11,236,158 of equipment financed under capital leases. Current year amortization expense for leased assets is \$89,828. Accumulated amortization expense for these assets is \$2,092,440. The future minimum capital lease payments and the present value of minimum capital lease payments for the Schools as of June 30, 2006 are as follows:

Fiscal years:		
2007	\$	3,394,761
2008		2,040,299
2009		1,208,625
2010		366,303
2011		366,303
Total future minimum lease payments		7,376,291
Less amounts representing interest		387,933
Present value of minimum capital lease payments		\$ 6,988,358

(10) Retirement Plans***Plan Description***

The City and Public Schools contribute to the Virginia Retirement System (the VRS), an agent and cost-sharing, multiple-employer defined benefit pension plan administered by the Virginia Retirement System. All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service (age 60 with five years of service for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters, and sheriffs 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.

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(10) Continued

The VRS 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 downloaded from their web site at www.VAretire.org or by writing the System at P.O. Box 2500, Richmond, VA 23218-2500.

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. The employer has assumed this 5% member contribution. In addition, the City and Schools are required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's and Schools' nonprofessional employees' contribution rates for the fiscal year ended June 30, 2006 were 15.25% and 12.75%, respectively, of annual covered payrolls.

The following table relates to the Schools' contribution rate for professional employees:

	Annual Required Contributions	Actual Amount Contributed in Dollars	Actual Amount Contributed in Percent
2006	\$ 22,683,414	22,683,414	100%
2005	20,185,748	20,185,748	100%
2004	15,154,834	15,154,834	100%

Annual Pension Cost

For the year ended June 30, 2006, the City's and Schools' annual pension cost and net pension obligation were as follows:

	City	Schools
Annual required contribution	\$ 18,956,558	2,363,221
Interest on net pension obligation	127,175	7,252
Adjustment to annual required contribution	(138,443)	(7,114)
Annual pension cost	18,945,290	2,363,359
Less contributions made	18,956,558	2,363,221
Decrease in net pension obligation	(11,268)	138
Net pension obligation at June 30, 2005	1,589,680	96,693
Net pension obligation at June 30, 2006	\$ 1,578,412	96,831

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(10) Continued

The required contributions were determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases from 4.25% to 6.10% per year, and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of the City's and Schools' assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City and Schools' unfunded actuarial accrued liabilities are being amortized as a level percentage of payroll on an open basis within a period of 12 years or 18 years, respectively.

Three-Year Trend Information

Fiscal Year Ended	City			Schools' Nonprofessional Employees		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2006	\$ 18,945,290	100.0%	\$ 1,578,412	\$ 2,363,221	100.0%	\$ 96,831
June 30, 2005	18,071,731	100.4%	1,589,680	2,227,623	100.0%	96,693
June 30, 2004	11,599,323	100.4%	1,601,029	1,633,810	100.0%	95,560

Early Retirement Plan

During fiscal year 1991, the Schools adopted an early retirement plan offered to each locality and school board by the VRS. This plan allowed persons age 50 or older with at least 25 years of service to retire with full benefits effective October 1, 1991. Eligible participants were required to announce their retirement by June 30, 1991. Principal payments totaling \$1,244,212 were made by the Schools during the year.

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

Schedule K, Continued

(11) Reserved Fund Balances

Primary Government

The reserved fund balances in the fund financial statements at June 30, 2006 were as follows:

	General	Debt Service	Capital Projects	Other Nonmajor Governmental	Total
RESERVED FOR:					
Expendable:					
Advances to component units	\$ 232,000	331,500	-	-	563,500
Reserve for debt service	-	2,423,656	-	-	2,423,656
Law library	13,269	-	-	-	13,269
Oak Grove Connector construction	1,005,966	-	1,386	-	1,007,352
Radio system	2,445,397	-	2,043	-	2,447,440
City future capital projects	2,253,196	-	12,940,059	-	15,193,255
Schools future capital projects	11,302,832	-	-	-	11,302,832
Open space projects	-	-	446,574	-	446,574
City Courts construction	-	-	5,060,081	-	5,060,081
City Jail construction	-	-	2,069,479	-	2,069,479
AIW Bridge	-	-	62,024	-	62,024
Drainage projects	-	-	2,394,111	-	2,394,111
Other	-	-	436,343	-	436,343
Arbitrage rebate	-	66,616	-	-	66,616
Encumbrances	1,910,896	-	37,566,450	2,785,875	42,263,221
Nonexpendable:					
Nonexpendable fund corpus	-	-	-	12,795	12,795
	\$ 19,163,556	2,821,772	60,978,550	2,798,670	85,762,548

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(12) Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with *Internal Revenue Code* Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the participants. Therefore, the assets are not included in the accompanying financial statements as of June 30, 2006.

(13) Hospitalization Benefits for Certain Retired Employees

(a) Under administrative regulation, the City offers hospitalization benefits to retired employees who are under age 65 and not eligible for Medicare and who retire after 15 or more years of service. Employees under age 65 who retire on VRS disability retirement after 15 or more years of service may also obtain coverage for their dependents. However, the City does not absorb any costs associated with this benefit unless the retiree has 20 or more years of service. As of June 30, 2006, 251 employees and their dependents were eligible for these benefits. The City accounts for these benefits as they are incurred and the expenses are included as part of the operating budget of the City. The expenditures for the year ended June 30, 2006 were \$1,259,577.

The City also offers and funds hospitalization benefits to retired employees who are over age 65 and eligible for Medicare and who retire after 15 or more years of service. These employees who retire on VRS disability retirement after 15 or more years of service may also obtain coverage for their dependents. As of June 30, 2006, 101 retired employees and their dependents were eligible for these benefits. The City accounts for these benefits as they are incurred and the expenses are included as part of the operating budget of the City. The expenditures for the year ended June 30, 2006 were \$233,204.

(b) The Schools offer medical benefits to employees who retire with at least 10 years of service with the school division. Qualifying retirees under the age of 65 remain on the regular employee medical plan and may obtain coverage for their dependents. At June 30, 2006, 470 eligible retirees were receiving these benefits with a Schools

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(13) Continued

contribution towards the cost. Schools account for these benefits as they are incurred and the expenses are included as part of the operating budget for the school division. The expenditures for the year ended June 30, 2006 were \$2,813,984.

Schools also offer medical benefits to retirees who are age 65 and above who are eligible for Medicare and have at least 10 years of service with the school division. A Schools contribution towards dependent coverage is not available. At June 30, 2006, 336 eligible retirees were receiving these benefits with a Schools contribution towards the cost. Schools account for these benefits as they are incurred and the expenses are included as part of the operating budget for the school division. The expenditures for the year ended June 30, 2006 were \$376,178.

- (c) Beginning with the fiscal year ending June 30, 2008, the City and Schools will implement the Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Under this statement the City and Schools will be required to recognize the cost of other postemployment benefits over the active service life of its employees rather than as they are incurred.

(14) Commitments

Lake Gaston Pipeline Project

On November 10, 1987, the City Council authorized the City Manager to execute a contract with the City of Virginia Beach pertaining to the design, construction and operation of a project to provide facilities for withdrawal and transportation of water from Lake Gaston to the City and to the City of Virginia Beach. Upon execution of the contract, the City agreed to purchase a one-sixth (1/6) ownership interest in the project and, accordingly, will be entitled to use water transported by the project in proportion to its ownership interest. The City will fund one-sixth of any and all costs relating to the acquisition, design, construction and operation of the Project except for certain costs related to normal maintenance and operation that fluctuate and which will be funded based upon the amount of water pumped through the pipeline. As of June 30, 2006, the City has incurred cumulative costs of \$24,817,626 related to the design and construction of the pipeline, with \$1,605 relating to fiscal year 2006. These costs are capitalized in the Public Utilities Fund.

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(14) Continued***Capital Improvements Program***

The City Council adopted a five-year capital improvements program on May 9, 2006 the total estimated cost of which amounted to \$305,742,058 to be funded from anticipated state and federal funds, debt financing, local fees and funds on hand, both appropriated and unappropriated. The first year of the plan was appropriated on the same date. A summary of the sources of funds for the amended capital budget follows:

Prorata drainage funds	\$ 200,000
Redirected funds from completed projects	1,690,800
Capital Projects Fund - fund balance	1,554,000
General Fund - reserve for City capital projects	950,000
Debt Fund fund - fund balance	1,688,000
General Fund - fund balance	7,254,000
Tax Increment Financing Fund	3,207,200
General Fund - reserve for School capital projects	1,449,800
Public Utilities	6,227,000
Stormwater management fees	7,300,000
VDOT reimbursement	22,829,000
Borrowing authority	48,800,873
Funds on hand previously appropriated	67,595,685
Anticipated federal and state funds	68,772,000
VPSA bonds and borrowing authority	66,223,700
	\$ 305,742,058

(15) Contingent Liabilities***Self-Insurance***

The City is exposed to various risks of loss related to civil torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Accordingly, during fiscal year 1987, the City established a Self-Insurance Fund (an Internal Service Fund) to account for and finance its uninsured risk of loss. Under this program, the Self-Insurance Fund provides coverage for up to: a) \$1,000,000 per claim for general and automobile liability claims; b) \$750,000 per workers' compensation claim; and c) \$100,000 per claim for public officials and law enforcement officer liability. The excess of each of these limits is covered by commercial insurance policies. There have not been any settlements that exceeded insurance coverage in each of the past three years. The Self-Insurance Fund also provides for employees that are permanently

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
 June 30, 2006

(15) Continued

and totally disabled. Indemnity coverage for these injured workers is based on 2/3 of their salary for a maximum of 500 weeks and lifetime medical care.

All funds of the City participate in the self-insurance program and make payments to the Self-Insurance Fund based on actuarial estimates. The actuary provides estimates of the amounts needed to pay prior-year and current-year claims, estimates to establish reserves for catastrophic losses, guidance in the determination of self-insurance liabilities, and projections and guidance for maintaining appropriate levels of fund balance reserves.

The claims liability of \$21,240,795 reported in the Self-Insurance Fund at June 30, 2006 is based on the requirements of the GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. It requires that a liability for claims should be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The claims liability includes an amount for claims that have been incurred but not reported (IBNR).

Changes in the Self-Insurance Fund's liability amount during the fiscal years ended June 30, 2006 and 2005 were as follows:

	Beginning Balance	Claims and Changes in Estimates	Claims Payments	Ending Balance
2005-2006	\$ 20,996,448	6,251,552	6,007,205	21,240,795
2004-2005	\$ 19,347,001	8,785,881	7,136,434	20,996,448

The Public Schools, a component unit, is self-insured for its workers' compensation and dental insurance. Workers' compensation has a \$300,000 limit per claim. Dental care has a cap at 120% of expected claims as calculated by the third-party administrator. Commercial insurance is purchased to cover other types of losses. The insurance coverage is substantially the same as in prior fiscal years. Claims processing and payments for workers' compensation and dental claims are made through a third-party administrator. The settlements using commercial insurance did not exceed insurance coverage for each of the past three years. Amounts due in future years on claims as of June 30, 2006 are recognized as a long-term liability. The Public Schools use the

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(15) Continued

provided by the third-party administrator to aid in the determination of self-insurance liabilities. The computed liability as of June 30, 2006 is \$1,288,287.

Changes in the Public Schools' liability for self-insurance losses amount during the fiscal years ended June 30, 2006 and 2005 were as follows:

	Beginning Balance	Claims and Changes in Estimates	Claims Payments	Ending Balance
2005-2006	\$ 1,037,323	3,973,249	3,722,285	1,288,287
2004-2005	\$ 2,038,756	2,670,770	3,672,203	1,037,323

Litigation

During the normal course of business, the City and its employees have been named as defendants in claims for personal injuries, property damage and specific performances which are being defended by the City Attorney and associated counsel. It is the opinion of the City Attorney, where it is possible to estimate, that the resolution of such litigation will not involve a substantial liability for the City in excess of amounts accrued in the Self-Insurance Fund.

Federal Award Programs

The City participates in a number of federal award programs. Although the City has been audited in accordance with the provisions of OMB Circular A-133, these programs are still subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. Based on prior experience, City management believes such disallowances, if any, will not be significant.

The U.S. Department of Justice – Office of the Inspector General has completed an audit report on the City's Community Oriented Policing Services grants. The recommendations proposed in the report are currently under review by the Office of Community Oriented Policing Services (COPS). The COPS Grant Monitoring Division is continuing its efforts to close the audit report, by requesting additional information that may demonstrate the City's compliance with grant conditions or requirements. The City is working with the COPS office during this review. The City believes that once resolution is reached, the City will be found to be in compliance with grant guidelines.

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2006

(16) Fund Deficits

The Self Insurance Fund, an Internal Service Fund, had a net asset deficit of \$5,510,467 at June 30, 2006. This deficit will be funded by future internal billings to other funds of the City.

The Chesapeake Expressway Fund, an Enterprise Fund, had a net asset deficit of \$3,523,042 at June 30, 2006. This deficit will be funded by future toll revenues.

The Community Development Fund, a Special Revenue Fund, had a net asset deficit of \$25,122 at June 30, 2006. This deficit will be funded by future intergovernmental revenues.

The Chesapeake Port Authority, a component unit, had a net asset deficit of \$940,312 at June 30, 2006. This deficit consists of an advance of \$944,407 to the Port Authority from the General Fund to provide working capital. The City has recorded a valuation allowance of an equal amount because the timing and certainty of collection is unknown.

(17) Subsequent Event

Effective July 1, 2006, the City will become eligible to share in debt service savings as a result of the State refunding Virginia Public School Authority bonds. The City was a participant in the pool in the original issuances of these bonds. The VPSA will give the City \$1,174,000 as its share of these debt service savings during the 2007 fiscal year.

Required Supplementary Information Other Than MD&A



CITY OF CHESAPEAKE, VIRGINIA

Schedule L-1

Schedule of Revenues, Expenditures, and Changes in Fund Balances -
 Budget and Actual - General Fund
 Year Ended June 30, 2006

	General Fund			
	Original Budget	Revised Budget	Actual	Variance Positive (Negative)
REVENUES				
General property taxes	\$ 244,392,294	244,392,294	252,864,255	8,471,961
Other local taxes	103,901,750	105,939,950	110,123,144	4,183,194
Licenses, permits, and fees	6,915,780	6,915,780	7,422,144	506,364
Intergovernmental revenues:				
Commonwealth of Virginia	74,443,881	75,411,751	81,524,923	6,113,172
Federal government	80,200	80,200	3,070,705	2,990,505
Recovered costs	10,200	10,200	523,278	513,078
Investment income	625,000	625,000	2,910,811	2,285,811
Revenues from use property	272,500	272,500	304,687	32,187
Charges for services	6,852,821	7,452,800	7,914,979	462,179
Fines and forfeitures	2,671,800	3,314,412	3,587,702	273,290
Miscellaneous local revenues	610,829	351,470	584,777	233,307
Total revenues	440,777,055	444,766,357	470,831,405	26,065,048
EXPENDITURES				
Current:				
General government	94,000,401	93,503,240	87,666,707	5,836,533
Public safety	69,829,615	72,407,881	70,669,690	1,738,191
Public works	44,092,599	45,266,599	42,415,372	2,851,227
Parks	7,543,386	6,792,840	6,190,727	602,113
Debt Service	2,330,120	2,330,120	2,330,857	(737)
Total expenditures	217,796,121	220,300,680	209,273,353	11,027,327
Excess of revenues over expenditures	222,980,934	224,465,677	261,558,052	37,092,375
OTHER FINANCING SOURCES(USES)				
Proceeds from capital lease	-	-	531,918	531,918
Transfers from other funds	130,000	137,940	897,092	759,152
Transfer from component units	300,000	300,000	1,111,131	811,131
Transfer from component unit - cash reversion	-	-	196,356	196,356
Transfers to other funds	(65,095,036)	(69,303,949)	(64,308,063)	4,995,886
Transfer to component units	(149,149,921)	(150,848,472)	(150,848,472)	-
Total other financing sources (uses)	(213,814,957)	(219,714,481)	(212,420,038)	7,294,443
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	9,165,977	4,751,196	49,138,014	44,386,818
Fund balances - beginning	100,801,657	100,801,657	100,801,657	-
Fund balances - ending	\$ 109,967,634	105,552,853	149,939,671	44,386,818

Unaudited - see accompanying auditor's report and note to required supplementary information

CITY OF CHESAPEAKE, VIRGINIA

Schedule L-2

Schedules of Funding Progress - Virginia Retirement System (unaudited)
Year Ended June 30, 2006

City Employees							
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll	
June 30, 2005	\$ 374,280,622	465,683,510	91,402,888	80.37%	\$ 119,706,016	76.36%	
June 30, 2004	357,806,464	419,050,008	61,243,544	85.39%	116,960,732	52.36%	
June 30, 2003	348,678,360	389,423,931	40,745,571	89.54%	113,636,361	35.86%	

Schools' Non-Professional Employees							
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll	
June 30, 2005	\$ 42,007,930	56,541,645	14,533,715	74.30%	\$ 17,437,108	83.35%	
June 30, 2004	40,517,147	48,237,485	7,720,338	84.00%	16,322,205	47.30%	
June 30, 2003	36,855,331	44,286,176	7,430,845	83.22%	15,293,398	48.59%	

CITY OF CHESAPEAKE, VIRGINIA

Note to Required Supplementary Information
June 30, 2006

(1) Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

Annual budget requests of the General Fund, Special Revenue Funds (except the Community Development Fund, Grants Fund, and CSB of Chesapeake, Inc., a blended component unit), Debt Service Fund, and Enterprise Funds (excluding construction funds) for the ensuing fiscal year are submitted to the City Manager by department or agency heads during the second quarter of the fiscal year. The City Manager reviews the requests and meets with department heads to discuss the requests. The Capital Projects Funds, Utility Construction Funds, Stormwater Management Construction Fund, Chesapeake Expressway Construction Fund, Grants Fund, and the Community Development Fund utilize project budgets in lieu of legally adopted annual budgets. The City Council does not adopt a budget for CSB of Chesapeake, Inc.

By April 1, the City Manager submits a balanced budget to City Council for the next ensuing fiscal year to begin July 1. This budget includes the Public Schools' budget as adopted by the School Board. Although the City Manager can make recommendations on the Public Schools' budget, he cannot alter it. The City Council makes an annual appropriation to the Public Schools but is prohibited from exercising any control over specific expenditures of the Public Schools' operating funds.

The budget is required to be adopted at the fund level by a majority vote of the City Council 47 days prior to the end of the current fiscal year. Subsequent to adoption at the fund level, the City Council adopts an appropriation ordinance allocating each fund's budget to the appropriate department.

After work sessions with the City Council and public hearings, the proposed budget is amended as necessary and an appropriations ordinance at the department level is adopted. Tax rates are established prior to the beginning of the fiscal year.

The City Council may authorize supplemental appropriations based on the availability of financial resources. The City Manager is authorized by City Council to make transfers between funds. Any revisions that alter total appropriations must be approved by City Council. The legal level of budgetary control rests at the fund level.

CITY OF CHESAPEAKE, VIRGINIA

Note to Required Supplementary Information
June 30, 2006

(1) Continued

Every appropriation in a legally adopted annual budget lapses at the close of the fiscal year to the extent that it has not been expended or encumbered. Because encumbrances outstanding at year end are reappropriated the following year under the provisions of the budget ordinance, encumbrances are considered expenditures (for budgetary purposes) in the year that the expenditure is incurred.

Appropriations for funds utilizing capital or project budgets do not lapse at year end but are multi-year and continue until the purpose of the appropriation has been fulfilled or abandoned. Appropriations under the capital improvement program are considered abandoned if three years pass without any disbursement or encumbrance of the appropriation. The level of budgetary control is on a project basis with additional controls being exercised administratively, as reasonable and necessary.

The General Fund budget is adopted on a modified accrual basis consistent with accounting principles generally accepted in the United States of America.

The original budget includes the adjustments necessary to bring forward the reappropriated encumbrances as authorized in the annual budget resolution.

Unaudited – see accompanying auditors' report.

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Supplementary Information - Combining and Individual Fund Schedules



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General Fund

General Fund – To account for all revenues and expenditures of the City which are not accounted for in other funds. Revenues are primarily derived from general property taxes, other local taxes, charges for services, and revenue from state and federal grants.

A significant part of the General Fund's revenue is transferred to component units and other funds, principally to fund operations of the Chesapeake Public Schools, the Virginia Public Assistance Fund, the Community Services Fund, the Interagency Consortium Fund, debt service requirements for the City and Public Schools, and to fund construction projects.



CITY OF CHESAPEAKE, VIRGINIA

Schedule M-1

General Fund
 Schedule of Revenues and Other Financing Sources -
 Budget and Actual
 Year Ended June 30, 2006

	Revised Budget	Actual	Variance Positive (Negative)
REVENUES			
General property taxes			
Current taxes on real property	\$ 190,526,984	196,606,315	6,079,331
Current taxes on public service corporations	11,190,000	10,289,317	(900,683)
Current taxes on personal property	28,299,400	31,417,778	3,118,378
Delinquent taxes on real property	2,600,000	3,371,653	771,653
Delinquent taxes on personal property	9,144,640	8,520,157	(624,483)
Penalties, interest, and advertising	2,631,270	2,659,035	27,765
Total general property taxes	244,392,294	252,864,255	8,471,961
Other local taxes			
Local sales and use taxes	33,055,350	34,355,722	1,300,372
Consumer utility taxes	9,700,000	9,438,777	(261,223)
Consumer telephone taxes	7,700,000	7,671,659	(28,341)
Business license taxes	21,537,800	23,853,491	2,315,691
Local utility consumption tax	816,800	873,554	56,754
Franchise license taxes	2,030,700	2,091,573	60,873
Bank stock taxes	755,700	942,843	187,143
Taxes on recordation and wills	4,561,000	5,461,684	900,684
Tobacco taxes	4,832,800	4,804,597	(28,203)
Hotel and motel room taxes	4,259,200	3,421,880	(837,320)
Restaurant food taxes	15,668,900	16,213,893	544,993
Admission taxes	573,200	534,195	(39,005)
Short-term rental taxes	293,100	294,031	931
Pari-mutuel wagering pool tax	155,400	165,245	9,845
Total other local taxes	105,939,950	110,123,144	4,183,194
Revenues from local sources			
Licenses, permits, and fees:			
Bicycle licenses	50	43	(7)
Building structure and equipment permits	820,000	1,330,519	510,519
Precious metals and gems permits	1,800	2,200	400
Highway and driveway permits	32,500	27,230	(5,270)
Transfer fees	8,000	8,437	437
Zoning inspection fees	50,000	74,708	24,708
Building inspection fees	84,000	125,893	41,893
Electrical inspection fees	320,000	396,855	76,855
Elevator inspection fees	15,330	4,385	(10,945)
Plumbing inspection fees	250,000	255,882	5,882
Mechanical permits	300,000	331,791	31,791
Subdivision review fees	275,000	331,776	56,776
Solicitors permits	100	1,028	928
Taxi operators licenses	200	360	160
Motor vehicle license	4,497,300	4,322,069	(175,231)
Inspection fees - gas appliances	80,000	73,181	(6,819)
Animal license and fees	139,000	116,867	(22,133)
Rodent free certification fee	2,500	5,390	2,890
Rental inspection fees	40,000	13,530	(26,470)
Total licenses, permits, and fees	6,915,780	7,422,144	506,364
Fines and forfeitures	3,314,412	3,587,702	273,290
Investment income	625,000	2,910,811	2,285,811

(Continued)

General Fund
 Schedule of Revenues and Other Financing Sources -
 Budget and Actual
 Year Ended June 30, 2006

	Revised Budget	Actual	Variance Positive (Negative)
Revenues from local sources, continued:			
Revenues from use of property:			
Rental of general property	\$ 163,500	145,147	(18,353)
Rental of recreation facilities	88,000	141,554	53,554
Library rental revenue	11,000	12,070	1,070
Rental of showmobile	10,000	5,916	(4,084)
Total revenues from use of property	272,500	304,687	32,187
Charges for services:			
Special court costs	91,740	94,579	2,839
Law library fees	100,000	90,609	(9,391)
Accident report fees	30,000	30,820	820
Municipal court fees	35,000	41,387	6,387
Civil penalties	7,500	7,504	4
Non-support fees	30,900	28,253	(2,647)
Commonwealth's Attorney fees	6,600	8,515	1,915
Police escort fees	3,000	3,180	180
Sale of service - police	262,500	213,953	(48,547)
Fire report fees	-	215	215
Sheriff fees	22,861	39,637	16,776
Inmate medical fees	66,000	43,321	(22,679)
Sale of service - jail	980,000	1,099,220	119,220
Sale of service - jail inmates	219,014	211,383	(7,631)
Inmate phone system - jail	160,000	258,859	98,859
Sale of service - sheriff	358,212	500,928	142,716
Sale of service - public works	201,925	251,731	49,806
Engineering and administrative fees	412,880	106,887	(305,993)
Recreation franchise fees	81,922	74,469	(7,453)
Vending machine commissions	7,000	5,831	(1,169)
Telephone commissions	200	-	(200)
Gallery fees and dues	12,810	4,163	(8,647)
Library fines and fees	330,500	389,452	58,952
Lot processing fees	178,000	99,765	(78,235)
Apartment processing fees	80,000	85,495	5,495
Sale of service - planning	2,880	2,157	(723)
Sale of service - public information	2,000	4,203	2,203
Sale of publications	-	16,139	16,139
Returned check fees	20,000	19,240	(760)
Custodian service	100,000	115,285	15,285
Wage assignment fees	9,538	8,710	(828)
Sale of service - assessor	11,000	11,121	121
Emergency medical service fees	2,790,000	2,937,777	147,777
Administration collected fees	300,000	249,359	(50,641)
Wetland Board Civil fees	140,000	70,000	(70,000)
Passport application fee	4,320	10,890	6,570
Sale of service - Commissioner of Revenue	2,300	2,381	81
Subdivision inspection fees	339,824	776,361	436,537
Sale of service - capital improvement budget support	51,374	-	(51,374)
Sale of service - sponsorship	1,000	1,200	200
Total charges for services	7,452,800	7,914,979	462,179

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule M-1, Continued

General Fund
 Schedule of Revenues and Other Financing Sources -
 Budget and Actual
 Year Ended June 30, 2006

	Revised Budget	Actual	Variance Positive (Negative)
Revenues from local sources, continued:			
Miscellaneous local revenues:			
Payments in lieu of taxes from other agencies	\$ 3,500	3,675	175
School proffers	-	134,470	134,470
Sale of real property	-	899	899
Sale of ARC - public works	61,750	62,402	652
Public Works claims reimbursement	15,000	10,097	(4,903)
Sale of junk and salvage	-	88,968	88,968
Escheated funds	-	229,834	229,834
Pro Rata Contributions	200,620	-	(200,620)
Other revenue	70,600	54,432	(16,168)
Total miscellaneous local revenues	351,470	584,777	233,307
Recovered costs:			
Insurance claims and collections	-	16,828	16,828
Other recoveries and rebates	10,000	505,606	495,606
Recoveries - jury	200	844	644
Total recovered costs	10,200	523,278	513,078
Total revenues from local sources	369,274,406	386,235,777	16,961,371
Revenues from the Commonwealth			
Noncategorical aid:			
ABC profits	116,769	116,769	-
Wine taxes	122,396	122,397	1
Motor vehicle carrier taxes	121,263	131,487	10,224
Mobile home titling taxes	40,000	30,817	(9,183)
Indirect costs	210,000	-	(210,000)
Police	7,182,501	7,182,478	(23)
Daily rental taxes - auto	725,000	737,786	12,786
Deed taxes	960,000	1,102,955	142,955
Personal Property Tax Relief	18,854,600	25,380,868	6,526,268
Delinquent Personal Property Tax Relief	7,152,553	5,104,353	(2,048,200)
Total noncategorical aid	35,485,082	39,909,910	4,424,828
Categorical aid:			
Shared expenses:			
Commonwealth's Attorney	1,218,588	1,185,131	(33,457)
Sheriff	7,950,472	8,066,921	116,449
Commissioner of the Revenue	360,434	362,817	2,383
Treasurer	417,194	415,017	(2,177)
Medical Examiner	2,360	1,530	(830)
Registrar/Electoral Board	75,933	91,609	15,676
Circuit court clerk	1,217,066	1,232,745	15,679
Agriculture	54,411	-	(54,411)
Jail project reimbursement - state	459,296	612,395	153,099
Total shared expenses	11,755,754	11,968,165	212,411

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule M-1, Continued

General Fund
 Schedule of Revenues and Other Financing Sources -
 Budget and Actual
 Year Ended June 30, 2006

	Revised Budget	Actual	Variance Positive (Negative)
Revenues from the Commonwealth, continued:			
Other categorical aid:			
Local jail	\$ 2,187,383	2,576,998	389,615
Street and highway maintenance	23,685,302	23,863,116	177,814
Library	213,913	218,037	4,124
Health	84,317	15,224	(69,093)
Excess fees	1,000,000	1,400,970	400,970
Other state grants	-	6,268	6,268
Transportation improvement set-aside	1,000,000	1,042,128	42,128
Reimbursement for emergency expense	-	524,107	524,107
Total other categorical aid	28,170,915	29,646,848	1,475,933
Total categorical aid	39,926,669	41,615,013	1,688,344
Total revenues from the Commonwealth	75,411,751	81,524,923	6,113,172
Revenues from the Federal Government			
Noncategorical aid - Refuge Revenue Sharing Act	60,000	57,955	(2,045)
Categorical aid:			
Other federal grants	-	162,480	162,480
Drug Enforcement Agency	-	1,245	1,245
Emergency reimbursement - federal	20,200	2,849,025	2,828,825
Total revenues from the Federal Government	80,200	3,070,705	2,990,505
Total revenues	444,766,357	470,831,405	26,065,048
OTHER FINANCING SOURCES			
Proceeds from capital lease	-	531,918	531,918
Payments from component unit - cash reversion	-	196,356	196,356
Payments from component units	300,000	1,111,131	811,131
Transfers from other funds	137,940	897,092	759,152
Total other financing sources	437,940	2,736,497	2,298,557
Total revenues and other financing sources	\$ 445,204,297	473,567,902	28,363,605

CITY OF CHESAPEAKE, VIRGINIA

Schedule M-2

General Fund
 Schedule of Expenditures, Encumbrances, and Other Financing Uses -
 Budget and Actual
 Year Ended June 30, 2006

	Appropriations	Operating	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
			Capital Outlay					
EXPENDITURES								
General government:								
Legislative Department - City Council	\$ 1,100,668	1,042,119	-	-	1,042,119	58,549	910	57,639
Executive Department:								
City manager	1,622,369	1,523,658	-	-	1,523,658	98,711	79,013	19,698
Intergovernmental affairs	427,512	424,607	-	-	424,607	2,905	-	2,905
Public communications	1,207,011	1,178,031	-	-	1,178,031	28,980	12,490	16,490
Contingencies	541,694	5,000	-	-	5,000	536,694	-	536,694
Environmental emergencies	425,950	-	-	-	-	425,950	-	425,950
Department of Law - City Attorney	2,327,152	2,076,256	-	-	2,076,256	250,896	12,955	237,941
Department of Finance:								
Commissioner of revenue	3,180,841	3,104,303	-	-	3,104,303	76,538	4,168	72,370
Real estate assessor	2,347,834	2,247,409	-	-	2,247,409	100,425	-	100,425
Board of equalization	4,025	2,842	-	-	2,842	1,183	-	1,183
City treasurer	3,599,158	3,252,518	-	-	3,252,518	346,640	6,914	339,726
Sale of city auto licenses	81,139	76,753	-	-	76,753	4,386	-	4,386
Director of finance	2,421,382	2,303,332	-	-	2,303,332	118,050	89,541	28,509
Economic development	1,633,967	1,629,131	-	-	1,629,131	4,836	-	4,836
Portlock galleries	112,770	109,820	-	-	109,820	2,950	-	2,950
Budget director	647,225	581,601	-	-	581,601	65,624	2,454	63,170
City auditor	448,889	416,523	-	-	416,523	32,366	-	32,366
Independent auditors	125,200	121,965	-	-	121,965	3,235	-	3,235
Department of Human Resources:								
Human resources	2,911,754	2,406,349	-	-	2,406,349	505,405	2,116	503,289
HIPAA	118,316	53,503	-	-	53,503	64,813	64,723	90
Judicial Department:								
Circuit court	592,605	543,470	-	-	543,470	49,135	-	49,135
Magistrates office	16,825	14,778	-	-	14,778	2,047	-	2,047
General district court	2,328,065	2,331,533	-	-	2,331,533	(3,468)	-	(3,468)
Juvenile and domestic relations court	837,094	839,209	-	-	839,209	(2,115)	-	(2,115)
Court services unit	398,187	327,778	-	-	327,778	70,409	-	70,409
Commonwealth's attorney	2,627,579	2,524,049	-	-	2,524,049	103,530	-	103,530
Circuit court clerk	2,119,167	1,975,214	-	-	1,975,214	143,953	114,575	29,378
Sheriff	29,060,555	28,521,893	9,800	-	28,531,693	528,842	35,199	493,643
Law library	135,061	125,674	-	-	125,674	9,387	-	9,387
Chesapeake volunteer services	302,135	229,713	-	-	229,713	72,422	-	72,422
Virginia juvenile community crime commission	69,355	70,824	-	-	70,824	(1,469)	-	(1,469)
Department of General Services:								
Purchasing	788,928	724,458	-	-	724,458	64,470	-	64,470
Buildings maintenance	4,878,767	4,842,929	-	-	4,842,929	35,838	8,511	27,327
Facilities Management - building	1,524,593	1,379,786	6,285	-	1,386,071	138,522	17,760	120,762
Department of Public Health:								
Adult clinics	777,600	722,392	-	-	722,392	55,208	48,983	6,225
General clinics	1,474,663	1,392,595	-	-	1,392,595	82,068	15,000	67,068
OSHA services	354,322	347,929	-	-	347,929	6,393	-	6,393

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule M-2, Continued

General Fund
 Schedule of Expenditures, Encumbrances, and Other Financing Uses -
 Budget and Actual
 Year Ended June 30, 2006

	Expenditures			Total	Unexpended Balance	Encumbrances	Unencumbered Balance
	Appropriations	Operating	Capital Outlay				
General government, continued:							
Department of Public Library:							
Public library	6,896,049	6,520,680	-	6,520,680	375,369	338,291	37,078
Records management	42,948	40,215	-	40,215	2,733	-	2,733
Public library state aid	218,760	218,760	-	218,760	-	-	-
Boards and Commissions:							
Planning department	1,923,906	1,753,104	-	1,753,104	170,802	89,993	80,809
Planning commission	353,315	44,872	-	44,872	308,443	-	308,443
Electoral board	827,394	706,417	531,918	1,238,335	(410,941)	-	(410,941)
Electoral workers	147,541	144,082	-	144,082	3,459	-	3,459
Department of Agriculture	419,382	383,848	-	383,848	35,534	-	35,534
Nondepartmental:							
Support of civic and community organizations	8,816,329	7,549,503	-	7,549,503	1,266,826	178,919	1,087,907
Chesapeake regional airport	287,279	287,279	-	287,279	-	-	-
Debt service	2,330,120	2,330,857	-	2,330,857	(737)	-	(737)
Total general government	95,833,360	89,449,561	548,003	89,997,564	5,835,796	1,122,515	4,713,281
Public Safety:							
Police department	32,362,452	31,672,556	-	31,672,556	689,896	25,206	664,690
Animal control	953,574	925,373	-	925,373	28,201	113	28,088
Public safety training	563,006	512,419	-	512,419	50,587	26,590	23,997
Fire department	31,549,212	31,238,129	-	31,238,129	311,083	44,966	266,117
Fire prevention bureau	934,100	933,830	-	933,830	270	-	270
Fire training	174,020	173,269	-	173,269	751	-	751
Fire - environmental compliance	74,319	71,101	-	71,101	3,218	-	3,218
Emergency medical services	1,048,755	1,063,545	-	1,063,545	(14,790)	-	(14,790)
Inspections	1,802	2,460	-	2,460	(658)	-	(658)
Neighborhood Services	3,091,820	2,890,731	-	2,890,731	201,089	13,355	187,734
Citizen Call Center	1,068,334	682,360	-	682,360	385,974	1,280	384,694
Neighborhood Coordination	331,928	250,765	-	250,765	81,163	50,713	30,450
Emergency management operations	254,559	253,152	-	253,152	1,407	-	1,407
Total public safety	72,407,881	70,669,690	-	70,669,690	1,738,191	162,223	1,575,968
Public works:							
Engineering and administration	11,739,625	11,277,544	65,748	11,343,292	396,333	4,245	392,088
Traffic engineering	1,666,700	1,574,341	38,383	1,612,724	53,976	150	53,826
Street maintenance	10,804,615	9,791,019	-	9,791,019	1,013,596	171,897	841,699
Bridges and structures	2,015,742	1,829,736	22,100	1,851,836	163,906	14,534	149,372
Bureau of drainage	1,663,559	1,459,973	18,817	1,478,790	184,749	6,988	177,761
Street cleaning	420,787	364,721	-	364,721	56,066	-	56,066
Solid waste collection	9,430,591	8,956,965	39,999	8,996,964	433,627	11,448	422,179
SPSA	7,525,000	6,976,026	-	6,976,026	548,974	275,256	273,718
Total public works	45,266,599	42,230,325	185,047	42,415,372	2,851,227	484,518	2,366,709

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule M-2, Continued

General Fund
 Schedule of Expenditures, Encumbrances, and Other Financing Uses -
 Budget and Actual
 Year Ended June 30, 2006

	Expenditures					Unexpended Balance	Encumbrances	Unencumbered Balance
	Appropriations	Operating	Capital Outlay	Total	Unexpended Balance			
Parks:								
Parks and grounds maintenance	2,605,077	2,199,870	9,810	2,209,680	395,397	130,437	264,960	
Administration	697,185	645,937	-	645,937	51,248	10,500	40,748	
Parks, grounds, and building maintenance - warehouse	76,144	56,673	-	56,673	19,471	-	19,471	
Parks, grounds, and building maintenance - workorder	71,410	60,498	-	60,498	10,912	78	10,834	
Recreation programs	2,339,944	2,258,083	-	2,258,083	81,861	-	81,861	
Northwest river park	557,055	520,099	-	520,099	36,956	625	36,331	
Senior citizens program	274,565	270,863	-	270,863	3,702	-	3,702	
Special programs	171,460	168,894	-	168,894	2,566	-	2,566	
Total parks	6,792,840	6,180,917	9,810	6,190,727	602,113	141,640	460,473	
Total expenditures and encumbrances	220,300,680	208,530,493	742,860	209,273,353	11,027,327	1,910,896	9,116,431	
OTHER FINANCING SOURCES/USES								
Transfers to component unit:								
Public Schools	150,848,472	150,652,116	-	150,652,116	196,356	-	196,356	
Transfers to other funds:								
Debt Service Fund	47,079,206	41,625,932	-	41,625,932	5,453,274	-	5,453,274	
Capital Projects Fund	3,389,705	3,847,093	-	3,847,093	(457,388)	-	(457,388)	
Virginia Public Assistance Fund	6,615,223	6,615,223	-	6,615,223	-	-	-	
Community Services Fund	5,211,903	5,211,903	-	5,211,903	-	-	-	
Interagency Consortium Fund	1,970,777	1,970,777	-	1,970,777	-	-	-	
Community Corrections Fund	51,998	51,998	-	51,998	-	-	-	
Fee Supported Activities Fund	50,000	50,000	-	50,000	-	-	-	
Grants Fund	344,190	344,190	-	344,190	-	-	-	
E-911 Operations Fund	2,372,179	2,372,179	-	2,372,179	-	-	-	
Juvenile Detention Home Fund	1,560,797	1,560,797	-	1,560,797	-	-	-	
City Garage Fund	647,310	647,310	-	647,310	-	-	-	
Self Insurance Fund	10,661	10,661	-	10,661	-	-	-	
Total transfers to other funds	69,303,949	64,308,063	-	64,308,063	4,995,886	-	4,995,886	
Total other financing sources (uses)	220,152,421	214,960,179	-	214,960,179	5,192,242	-	5,192,242	
Total expenditures, encumbrances, and other financing uses	\$ 440,453,101	423,490,672	742,860	424,233,532	16,219,569	1,910,896	14,308,673	

Debt Service Fund

Debt Service Fund – To account for the accumulation of resources for the payment of principal, interest, and related costs on long-term financial debt of governmental funds.



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CITY OF CHESAPEAKE, VIRGINIA

Schedule N

Debt Service Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balance -
 Budget and Actual
 Year Ended June 30, 2006

	Revised Budget	Actual	Variance Positive (Negative)
REVENUES			
Investment income	\$ 500,000	1,311,352	811,352
Revenues from use of property	115,765	115,765	-
Intergovernmental revenues:			
Commonwealth of Virginia	168,248	224,331	56,083
Total revenues	784,013	1,651,448	867,435
EXPENDITURES			
Interest on general obligation bonds	20,017,783	17,423,272	2,594,511
Interest on literary loans	171,806	171,805	1
Capital lease payments	1,500,155	1,500,153	2
Other debt expenditures	395,000	260,940	134,060
Redemption of general obligation bonds	27,624,137	25,524,136	2,100,001
Redemption of literary loans	549,493	549,493	-
Total expenditures	50,258,374	45,429,799	4,828,575
Deficiency of revenues under expenditures	(49,474,361)	(43,778,351)	5,696,010
OTHER FINANCING SOURCES (USES)			
Transfers from other funds:			
General Fund	46,320,444	41,625,932	(4,694,512)
Conference Center Fund	500,000	518,967	18,967
E-911 Operations Fund	1,500,155	1,500,153	(2)
Capital Projects Fund	-	2,799,702	2,799,702
Total transfers from other funds	48,320,599	46,444,754	(1,875,845)
Payments from component unit - Public Schools Capital Projects Fund	758,762	1,048,345	289,583
Premium on general obligation bonds issued	-	59,276	59,276
Proceeds from general obligation bonds issued	395,000	250,880	(144,120)
Total other financing sources (uses)	49,474,361	47,803,255	(1,671,106)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	4,024,904	4,024,904
Fund balance - beginning	25,812,413	25,812,413	-
Fund balance - ending	\$ 25,812,413	29,837,317	4,024,904

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Capital Projects Fund

Capital Projects Fund – To account for financial resources to be used for the acquisition or construction of most major capital facilities other than those financed by proprietary funds.



CITY OF CHESAPEAKE, VIRGINIA

Schedule O

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2006

Project	Expenditures					Total	Unexpended Balance	Encumbrances	Unencumbered Balance
	Appropriations	Prior Years	Current Year						
General construction projects:									
General government:									
1030800100	American with Disability Act II	\$ 150,000	-	145,173	145,173	4,827	-	-	4,827
1051000100	Parole & Probation	3,100,000	-	-	-	3,100,000	-	-	3,100,000
1060700100	Jail Construction/Repair/Remediation	911,077	56,469	694,693	751,162	159,915	2,458	2,458	157,457
1060800100	Detention Home Space Study	240,000	161,998	65,706	227,704	12,296	3,641	3,641	8,655
1070400100	Integrated Financial Management System	4,631,765	3,499,899	1,075,329	4,575,228	56,537	53,860	53,860	2,677
1070500100	Congestion Mitigation Air Quality Program	170,354	2,568	5,000	7,568	162,786	-	-	162,786
1070900100	TCC Land Acquisition	1,071,093	749,357	310,042	1,059,399	11,694	-	-	11,694
1080900100	Battlefield Boulevard Strategic Development	1,000,000	-	-	-	1,000,000	-	-	1,000,000
1090800100	TCC Off Site Improvement	2,000,000	1,339,702	-	1,339,702	660,298	-	-	660,298
1090900100	South Norfolk Strategic Development	2,000,000	11,606	75,676	87,282	1,912,718	72,681	72,681	1,840,037
1110900100	Battlefield Boulevard Plan Land Acquisition	750,000	-	-	-	750,000	-	-	750,000
1119400100	Municipal Center Parking	21,165	3,905	-	3,905	17,260	395	395	16,865
1120400100	Undesignated Utilities and Water and Sewer Lines	495,460	426,123	-	426,123	69,337	-	-	69,337
1120800100	Indian River High School Basketball Field	209,665	236	163,000	163,236	46,429	-	-	46,429
1120900100	South Norfolk Plan Land Acquisition	1,850,000	285,398	1,400,125	1,685,523	164,477	-	-	164,477
1128800100	Drainage City-Wide	265,201	30,115	6,102	36,217	228,984	9,832	9,832	219,152
1130400100	City Strategic Plan	250,000	246,325	438	246,763	3,237	-	-	3,237
1140600100	Facilities High Priority Renewal & Replacement	2,394,494	1,217,615	275,755	1,493,370	901,124	175,089	175,089	726,035
1140700100	South Norfolk Community Improvement	214,098	145,997	-	145,997	68,101	1,150	1,150	66,951
1140900100	Open Space & Agriculture	75,000	458	5,000	5,458	69,542	-	-	69,542
1149600100	Arts Education Center	165,000	86,352	-	86,352	78,648	13,090	13,090	65,558
1150900100	Fire Station 3 - Indian River	3,153,600	-	104,543	104,543	3,049,057	191,642	191,642	2,857,415
1159800100	American with Disability Act	464,135	438,737	22,540	461,277	2,858	-	-	2,858
1170600100	Infrastructure Improvement	1,392,702	259,136	232,868	492,004	900,698	-	-	900,698
1190600100	E-Government Initiative	500,000	476,497	15,402	491,899	8,101	7,969	7,969	132
1191000100	Greenbrier TIF Master Study	250,000	-	-	-	250,000	-	-	250,000
1221000100	EMS Field Data Collection & Billing System	395,000	-	-	-	395,000	-	-	395,000
1230900100	Animal Control Bureau Shelter	4,520,520	-	-	-	4,520,520	-	-	4,520,520
1241000100	Public Safety Facility Design	265,000	-	-	-	265,000	-	-	265,000
1250900100	Business Tax Development Program	205,001	120,294	84,707	205,001	-	-	-	-
1251000100	Juvenile Services-Windows and Door Modification	175,000	-	29,301	29,301	145,699	87,101	87,101	58,598
1260600100	Tidewater Detention Home Floor Replacement	237,000	212,433	-	212,433	24,567	-	-	24,567
1271000100	Campostella Square Library	1,600,000	-	69,588	69,588	1,530,412	1,530,412	1,530,412	-
1280500100	Environment Assessment Remedial Program	1,363,037	1,219,482	39,754	1,259,236	103,801	-	-	103,801
1280600100	Cash Processing System/Treasurer	293,590	114,178	73,634	187,812	105,778	6,069	6,069	99,709
1300600100	Chesapeake Airport Improvement	825,400	805,024	20,376	825,400	-	-	-	-

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O, Continued

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2006

Project	Expenditures					Unexpended Balance	Encumbrances	Unencumbered Balance
	Appropriations	Prior Years	Current Year	Total	Unexpended Balance			
General construction projects, continued:								
General government, continued:								
1300900100	Conference Center Equipment Replacement	\$ 812,344	164,288	63,597	227,885	584,459	133,984	450,475
1390600100	Facility Space Needs	113,000	7,813	-	7,813	105,187	-	105,187
1410600100	GASB34 Implementation	150,667	125,934	-	125,934	24,733	-	24,733
	Total general government	38,680,368	12,207,939	4,978,349	17,186,288	21,494,080	2,289,373	19,204,707
Department of Public Safety:								
1040900200	Grade Crossing Safety & Intersection	100,000	159	192	351	99,649	-	99,649
1120500200	Training Academy Firing Range	39,049	39,049	-	39,049	-	-	-
1150600200	Fire Station 9 Camelot/Brentwood	2,027,602	1,959,743	37,773	1,997,516	30,086	-	30,086 *
1150610200	Fire Station 9 Camelot/Brentwood II	107,045	-	2,712	2,712	104,333	-	104,333
1169800200	Fire Station 5	1,299	1,299	-	1,299	-	-	-
1180600200	Police Precinct 3	306,990	306,990	-	306,990	-	-	-
1189600200	Additions Jail	41,915	11,000	-	11,000	30,915	21,619	9,296
1220900200	Public Safety Building Addition Study	100,000	-	44,483	44,483	55,517	45,517	10,000
1230900200	Animal Control Bureau Shelter	840,999	8,778	3,965	12,743	828,256	13,890	814,366
1380800200	800 Mhz Tower Demolition	163,594	48,670	109,380	158,050	5,544	3,872	1,672
	Total Department of Public Safety	3,728,493	2,375,688	198,505	2,574,193	1,154,300	84,898	1,069,402
Department of Public Works:								
1002400300	Portsmouth Boulevard Phase 4	252,459	146,685	-	146,685	105,774	-	105,774
1020700300	Gilmerton Bridge Repairs	925,044	271,037	27,191	298,228	626,816	-	626,816
1040700300	Ortho Photography IT	312,000	282,003	29,997	312,000	-	-	-
1050900300	Smart Traffic Center Phase 4	4,202,273	-	-	-	4,202,273	4,462	4,197,811
1060900300	Smart Traffic Center Phase 3	500,000	-	-	-	500,000	-	500,000
1080400300	Undesignated Public Works Projects	217,297	175,435	34,664	210,099	7,198	1,000	6,198
1090500300	Kempsville Road Pump Station Relocation	4,840	-	-	-	4,840	-	4,840
1100700300	Traffic Signal Cedar Commons	150,306	124,485	25,821	150,306	46,636	-	46,636
1110500300	Various Traffic Signals	1,243,164	1,195,491	1,037	1,196,528	5,000	-	5,000
1110600300	Salt Storage Building	5,000	-	-	-	5,000	-	5,000
1110700300	Wellons-Forehand Overpass	231,731	231,731	-	231,731	-	-	-
1110800300	Fernwood Farms Sidewalk	190,000	190,000	-	190,000	-	-	-
1130900300	Northwest River Park Watershed Study	100,000	100,000	-	100,000	-	-	-

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Capital Projects Fund

Schedule of Expenditures and Encumbrances - Budget and Actual
Year Ended June 30, 2006

Schedule O, Continued

Project	Expenditures				Total	Unexpended Balance	Encumbrances	Unencumbered Balance
	Appropriations	Prior Years	Current Year					
General construction projects, continued:								
Department of Public Works, continued:								
1150500300	\$ 205,000	151,511	4,430	155,941	49,059	-	49,059	
1160300300	1,290,506	423,680	2,268	425,948	864,558	-	864,558	
1160900300	5,050,000	6,600	1,486,756	1,493,356	3,556,644	2,368,519	1,188,125	
1170900300	580,000	108,817	79,878	188,695	391,305	-	391,305	
1200400300	148,000	66,087	15,283	81,370	66,630	7,725	58,905	
1200500300	625,000	57,560	19,621	77,181	547,819	25,546	522,273	
1210500300	1,197,250	285,609	90,200	375,809	821,441	42,117	779,324	
1210600300	200,000	128,241	51,518	179,759	20,241	8,600	11,641	
1210800300	661,448	5,610	275,980	281,590	379,858	1,000	378,858	
1211000300	1,750,000	-	657	657	1,749,343	-	1,749,343	
1220600300	79,560	15,952	-	15,952	63,608	-	63,608	
1230600300	5,839,000	1,093,696	574,794	1,668,490	4,170,510	678,253	3,492,257	
1240800300	51,986	37,876	-	37,876	14,110	-	14,110	
1260800300	42,500	38,499	-	38,499	4,001	-	4,001	
1270700300	1,970,000	16,052	125,398	141,450	1,828,550	86,892	1,741,658	
1281000300	324,000	-	2,173	2,173	321,827	-	321,827	
1290900300	273,000	92,000	140,000	232,000	41,000	-	41,000	
1301000400	20,852	-	-	20,852	20,852	-	20,852	
1310400300	53,306	-	-	53,306	53,306	2,175	51,131	
1319000300	890,696	663,416	4,900	668,316	222,380	-	222,380	
1320400300	101,662	75,695	-	75,695	25,967	-	25,967	
1320600300	14,255,000	7,851,318	5,138,104	12,989,422	1,265,578	681,303	584,275	
1321000300	615,000	-	138,829	138,829	476,171	103,848	372,323	
1330600300	355,100	160,429	-	160,429	194,671	-	194,671	
1330900300	15,793	-	-	15,793	15,793	-	15,793	
1338000300	149,025	149,025	-	149,025	-	-	-	
1338100300	446,302	119,823	-	119,823	326,479	-	326,479	
1350900300	150,000	-	508	508	149,492	149,000	492	
1351000300	7,012,000	-	157,986	157,986	6,854,014	858,542	5,995,472	
1361000300	1,700,000	-	75	75	1,699,925	-	1,699,925	
1370800300	25,000	25,000	-	25,000	-	-	-	
1380600300	1,045,415	60,286	22,470	82,756	962,659	117,178	845,481	
1400600300	3,016,000	2,448,954	547,208	2,996,162	19,838	19,838	-	
1450900300	360,000	-	8,721	8,721	351,279	-	351,279	
1479900300	612,286	307,868	66,088	373,956	238,330	-	238,330	
1509900300	4,065,993	3,853,680	150,277	4,003,957	62,036	55,876	6,160	
1529900300	92,133	165	-	165	91,968	-	91,968	
1599900300	780,991	673,664	8,430	682,094	98,897	-	98,897	
Total Department of Public Works	64,383,918	21,633,980	9,231,262	30,865,242	33,518,676	5,211,874	28,306,802	

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O, Continued

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2006

Project	Expenditures				Total	Unexpended Balance	Encumbrances	Unencumbered Balance
	Appropriations	Prior Years	Current Year					
General construction projects, continued:								
Department of Libraries:								
1129801000	Indian River Library Expansion	3,450,705	35,913	3,486,618	99,999	3,586	96,413 *	
1129811000	Indian River Library 2	90,083	-	-	90,083	-	90,083	
	Total Department of Libraries	3,450,705	35,913	3,486,618	190,082	3,586	186,496	
Department of Parks and Recreation:								
1050700400	Campostella Square Community Center	5,438,000	818,826	4,027,082	1,410,918	1,396,197	14,721	
1070800400	Camp 22 Acquisition and Improvement	1,780,000	200	1,560,087	219,913	-	219,913 *	
1130800400	Bryant Farms Park	27,000	-	13,877	13,123	-	13,123	
1150800400	Chesapeake City Park	105,500	38,800	92,362	13,138	3,308	9,830	
1160800400	Sawyer's Mill Park	20,000	12,414	12,414	7,586	-	7,586	
1170500400	Parks Land Acquisition	1,430,539	1,346,660	1,346,660	83,879	-	83,879	
1180800400	Miars's Plantation	45,969	31,099	31,099	14,870	-	14,870	
1190800400	Stonegate Park	22,000	14,442	14,442	7,558	-	7,558	
1230800400	Centerville Turnpike Park Phase 1	3,412,828	84,825	1,907,471	1,505,357	636,022	869,335	
1260700400	Battlefield Visitor Center	450,000	358	216,061	233,939	186,822	47,117	
1270800400	River's Edge Play Area	27,248	-	-	27,248	-	27,248	
1270900400	Deep Creek Lock Park	167,815	-	136,258	31,557	24,928	6,629	
1280900400	South Battlefield Park	83,685	-	37,471	46,214	42,923	3,291	
1300800400	Oak Grove Lake Park	158,317	-	22,317	136,000	112,294	23,706	
1310800400	Western Branch Dog Park	20,000	19,531	19,813	187	-	187	
1310900400	Atlantic Avenue Park	35,048	7,649	35,048	-	-	- *	
1320800400	Southwestern Park	21,000	228	228	20,772	-	20,772	
1340600400	New Park Development - Open Space	430,408	223,435	283,949	146,459	40,000	106,459	
1360600400	Cedar Crossings Play Area	14,669	14,669	14,669	-	-	-	
1360900400	Parkview Park	15,000	-	12,414	2,586	-	2,586	
1370600400	Waterstone Park	37,077	-	23,988	13,089	-	13,089	
1370900400	Rivercrest Park	16,429	-	-	16,429	16,429	-	
1371000400	Oakbrooke Park	16,179	-	-	16,179	16,179	-	
1380900400	Cascade Blvd Playground	11,656	-	-	11,656	11,656	-	
1390900400	Bells Mill	22,000	-	12,730	9,270	-	9,270	
1400900400	Cheshire Forest	16,781	-	-	16,781	16,781	-	
1410900400	Camelot Park	34,165	6,218	6,218	27,947	27,947	-	
1420900400	Cornland Park	36,142	-	-	36,142	36,142	-	

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Capital Projects Fund

Schedule of Expenditures and Encumbrances - Budget and Actual
Year Ended June 30, 2006

Schedule O, Continued

Project	Expenditures					Unencumbered Balance
	Appropriations	Prior Years	Current Year	Total	Unexpended Balance	
General construction projects, continued:						
Department of Parks and Recreation, continued:						
1440900400	\$ 40,000	-	39,814	39,814	186	186
Total Department of Parks and Recreation	13,935,455	2,600,722	7,265,750	9,866,472	4,068,983	1,501,355
Total General construction projects	124,404,934	42,269,034	21,709,779	63,978,813	60,426,121	50,268,762
School capital projects:						
9050326650	67,595,917	4,408,336	28,643,774	33,052,110	34,543,807	7,134,716
Total school capital projects	67,595,917	4,408,336	28,643,774	33,052,110	34,543,807	7,134,716
Community development projects						
Queen City	17,946	4,652	319,952	4,652	13,294	13,294
3813000500	4,436,492	4,051,503	319,952	4,371,455	65,037	65,037
Total community development projects	4,454,438	4,056,155	319,952	4,376,107	78,331	78,331
Lease revenue bonds						
6945010194	n/a	831,188	357,156	1,188,344	(1,188,344)	(1,188,344)
6945020196	n/a	1,319,224	54,586	1,373,810	(1,373,810)	(1,373,810)
Total lease revenue bonds	n/a	2,150,412	411,742	2,562,154	(2,562,154)	(2,562,154)
Supplemental agreements (trustee)						
6945030197	n/a	2,211,316	-	2,211,316	(2,211,316)	(2,211,316)
Total Supplemental agreements (trustee)	n/a	2,211,316	-	2,211,316	(2,211,316)	(2,211,316)
Total expenditures and encumbrances	\$ 196,455,289	55,095,253	51,085,247	106,180,500	90,274,789	52,708,339
Less completed projects	7,918,598					
Construction in progress	\$ 188,536,691			\$ 98,611,900		

* Completed Projects
n/a - not applicable

Special Revenue and Permanent Funds

Special Revenue Funds:

Virginia Public Assistance Fund – To account for the rendering of economic aid to qualifying citizens.

Community Services Fund – To account for revenues and expenditures to provide services for mental health, mental retardation, and substance abuse programs.

CSB of Chesapeake, Inc. – To account for the issuance of debt and the rental of a community services facility for the Community Services Board.

Conference Center Fund – To account for the operation of the City's Conference Center.

Community Development Fund – To account for revenues and expenditures under the Community Development Block Grant Program.

Interagency Consortium Fund – To account for revenues and expenditures of the delivery system for severely emotionally and/or behaviorally disturbed children.

Community Corrections Fund – To account for revenues and expenditures under the Virginia Community Corrections Act.

Fee Supported Activities Fund – To account for revenues and expenditures related to fee supported activities.

Tax Increment Financing Fund – To account for incremental tax revenues generated in designated commercial areas of the City and to fund improvements in the relevant areas through the use of those revenues.

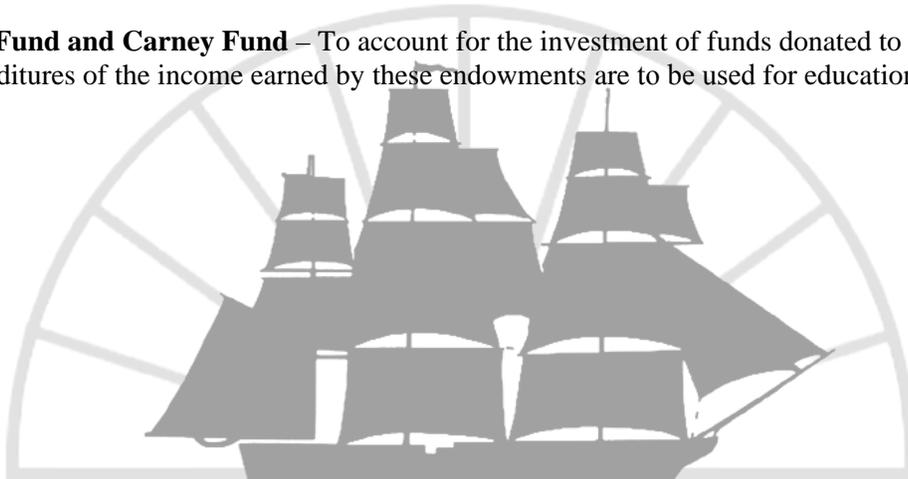
Grants Fund – To account for revenues and expenditures related to specific grant activities.

E-911 Operations Fund – To account for revenues and expenditures related to the emergency call center.

Chesapeake Juvenile Services Fund – To account for revenues and expenditures related to the operation of a regional detention facility.

Permanent Funds:

Poor Fund and Carney Fund – To account for the investment of funds donated to the City. The expenditures of the income earned by these endowments are to be used for education.



CITY OF CHESAPEAKE, VIRGINIA

Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2006

Schedule P-1

	Special Revenue Funds									
	Virginia Public Assistance	Community Services	CSB of Chesapeake, Inc.	Conference Center	Community Development	Interagency Consortium	Community Corrections	Fee Supported Activities		
ASSETS										
Cash and temporary investments	\$ 1,264,907	5,100,413	435,366	1,308,321	-	1,996,365	101,826	536,068		
Intergovernmental revenues due from:										
Commonwealth of Virginia	385,128	-	-	-	1,232,221	587,309	-	-		
Federal government	785,343	-	-	-	-	-	-	-		
Receivables:										
Accounts receivable	-	-	-	3,085	-	120	-	-	17,053	
Interest receivable	-	-	-	-	-	-	-	-	-	
Other	-	183	-	124,579	20,000	-	-	-	-	
Total assets	2,435,378	5,100,596	435,366	1,435,985	1,252,221	2,583,794	101,826	553,121		
LIABILITIES AND FUND BALANCES										
Liabilities										
Accounts payable	125,867	419,204	-	90,858	214,919	451,883	2,529	3,215		
Deposits	-	-	-	60,546	-	-	-	-		
Accrued expenditures	24,757	14,413	-	9,313	-	-	-	-		
Deferred revenues	-	167,610	-	-	-	-	-	-		
Due to other funds	-	-	-	317,009	1,062,424	-	-	-		
Total liabilities	150,624	601,227	-	477,726	1,277,343	451,883	2,529	3,215		
Fund Balances										
Reserved:										
Expendable	25,783	130,231	-	750	5,400	-	731	-		
Unexpendable	-	-	-	-	-	-	-	-		
Unreserved:										
Designated	-	-	-	47	(10,757)	-	-	62,506		
Undesignated	2,258,971	4,369,138	435,366	957,462	(19,765)	2,131,911	98,566	487,400		
Total fund balances	2,284,754	4,499,369	435,366	958,259	(25,122)	2,131,911	99,297	549,906		
Total liabilities and fund balances	\$ 2,435,378	5,100,596	435,366	1,435,985	1,252,221	2,583,794	101,826	553,121		

(Continued)

Schedule P-1 (Continued)

CITY OF CHESAPEAKE, VIRGINIA

Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2006

	Special Revenue Funds					Permanent Funds			Total Nonmajor Governmental Funds
	Tax Increment Financing	Grants	E-911 Operations	Chesapeake Juvenile Services	Poor	Carney			
ASSETS									
Cash and temporary investments	\$ 1,675,556	3,104,167	672,021	84,008	145,464	11,471		16,435,953	
Intergovernmental revenues due from: Commonwealth of Virginia:	-	181,996	355,558	597,447	-	-	-	2,107,438	
Federal government	-	1,780,768	-	-	-	-	-	3,798,332	
Receivables:									
Accounts receivable	-	-	256,950	367,255	-	-	-	644,463	
Interest receivable	-	-	-	-	2,167	282	-	2,449	
Other	-	-	-	-	-	-	-	144,762	
Total assets	1,675,556	5,066,931	1,284,529	1,048,710	147,631	11,753		23,133,397	
LIABILITIES AND FUND BALANCES									
Liabilities									
Accounts payable	21,857	118,377	11,587	22,072	-	-	-	1,482,368	
Deposits	-	-	-	-	-	-	-	60,546	
Accrued expenditures	526	887	7,956	12,229	-	-	-	70,081	
Deferred revenues	-	-	614,922	-	-	-	-	782,532	
Due to other funds	-	-	-	-	-	-	-	1,379,433	
Total liabilities	22,383	119,264	634,465	34,301	-	-	-	3,774,960	
Fund Balances									
Reserved:									
Expendable	7,521	1,454,011	1,158,698	2,750	-	-	-	2,785,875	
Unexpendable	-	-	-	-	11,295	1,500	-	12,795	
Unreserved:									
Designated	-	-	-	-	-	-	-	51,796	
Undesignated	1,645,652	3,493,656	(508,634)	1,011,659	136,336	10,253	-	16,507,971	
Total fund balances	1,653,173	4,947,667	650,064	1,014,409	147,631	11,753	-	19,358,437	
Total liabilities and fund balances	\$ 1,675,556	5,066,931	1,284,529	1,048,710	147,631	11,753	-	23,133,397	

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-2

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Governmental Funds
 Year Ended June 30, 2006

	Special Revenue Funds							Fee Supported Activities
	Virginia Public Assistance	Community Services	CSB of Chesapeake, Inc.	Conference Center	Community Development	Interagency Consortium	Community Corrections	
REVENUES								
Taxes on real property	-	-	-	-	-	-	-	-
Consumer telephone tax E-911	-	-	-	-	-	-	-	-
Restaurant food tax	-	-	-	1,655,837	-	-	-	-
Lodging sales tax	-	-	-	508,205	-	-	-	-
Revenues from use of property	-	-	-	272,037	-	-	-	-
Intergovernmental revenues:								
Commonwealth of Virginia	4,642,204	5,577,023	-	-	-	1,702,606	439,813	-
Federal government	9,223,996	1,197,221	-	-	1,913,502	-	-	-
Recovered costs	26,358	1,586	-	905	-	-	-	21,389
Investment income	33,000	133,047	12,015	28,955	4,172	52,076	-	13,984
Charges for services	6,370	2,617,874	-	593,280	-	256	-	102,390
Sale of food and beverages	-	-	-	1,799,282	-	-	-	-
Miscellaneous local revenues	3,266	-	-	7,698	-	-	-	-
Program income	-	-	-	-	179,969	-	-	-
Total revenues	13,935,194	9,526,751	12,015	4,866,199	2,097,643	1,754,938	439,813	137,763
EXPENDITURES								
Current:								
General government	-	-	-	3,926,211	-	-	460,517	-
Public safety	-	-	-	-	-	-	-	153,139
Public works	-	-	-	-	-	-	-	-
Parks	-	-	-	-	-	-	-	-
Public welfare	19,014,541	13,271,000	-	-	1,409,786	3,111,238	-	-
Capital outlay	-	-	-	-	-	-	-	-
Debt service	-	-	323,262	37,474	384,038	-	-	-
Total expenditures	19,014,541	13,271,000	323,262	3,963,685	1,793,824	3,111,238	460,517	153,139
Excess (deficiency) of revenues over (under) expenditures	(5,079,347)	(3,744,249)	(311,247)	902,514	303,819	(1,356,300)	(20,704)	(15,376)
OTHER FINANCING SOURCES(USES)								
Transfers from other funds	6,615,223	5,211,903	323,237	-	-	1,970,777	51,998	50,000
Transfers to other funds	(115,575)	(526,483)	-	(888,722)	(319,952)	(52,076)	-	(13,978)
Total other financing sources (uses)	6,499,648	4,685,420	323,237	(888,722)	(319,952)	1,918,701	51,998	36,022
Net change in fund balance	1,420,301	941,171	11,990	13,792	(16,133)	562,401	31,294	20,646
Fund balance - beginning	864,453	3,558,198	423,376	944,467	(8,989)	1,569,510	68,003	529,260
Fund balance - ending	\$ 2,284,754	4,499,369	435,366	958,259	(25,122)	2,131,911	99,297	549,906

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-2 (Continued)

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Governmental Funds
 Year Ended June 30, 2006

	Special Revenue Funds				Permanent Funds			Total Nonmajor Governmental Funds
	Tax Incremental Financing	Grants	E-911 Operations	Chesapeake Juvenile Services	Poor	Carney		
REVENUES								
Taxes on real property	\$ 1,706,706	-	-	-	-	-	-	1,706,706
Consumer telephone tax E-911	-	-	3,093,026	-	-	-	-	3,093,026
Restaurant food tax	-	-	-	-	-	-	-	1,655,837
Lodging sales tax	-	-	-	-	-	-	-	508,205
Revenues from use of property	-	-	-	-	-	-	-	272,037
Intergovernmental revenues:								
Commonwealth of Virginia	-	926,968	547,552	2,967,108	-	-	-	16,803,274
Federal government	-	3,297,556	-	-	-	-	-	15,632,275
Recovered costs	-	-	-	1,812,432	-	-	-	1,862,670
Investment income	-	65,790	1,753	-	4,731	623	-	350,146
Charges for services	-	59,574	-	-	-	-	-	3,379,744
Sale of food and beverages	-	-	-	-	-	-	-	1,799,282
Miscellaneous local revenues	-	586,014	-	-	-	-	-	596,978
Program income	-	-	-	-	-	-	-	179,969
Total revenues	1,706,706	4,935,902	3,642,331	4,779,540	4,731	623	-	47,840,149
EXPENDITURES								
Current:								
General government	319,281	944,803	-	6,397,985	-	-	-	12,048,797
Public safety	-	1,449,251	4,371,915	-	-	-	-	5,974,305
Public works	-	8,143	-	-	-	-	-	8,143
Parks	-	183,101	-	-	-	-	-	183,101
Public welfare	-	1,054,135	-	-	-	-	-	37,860,700
Capital outlay	-	365,133	-	-	-	-	-	365,133
Debt service	-	-	-	-	-	-	-	744,774
Total expenditures	319,281	4,004,566	4,371,915	6,397,985	-	-	-	57,184,953
Excess (deficiency) of revenues over (under) expenditures	1,387,425	931,336	(729,584)	(1,618,445)	4,731	623	-	(9,344,804)
OTHER FINANCING SOURCES(USES)								
Transfers from other funds	-	436,403	2,372,179	1,643,372	-	-	-	18,675,092
Transfers to other funds	-	(58,000)	(1,501,906)	-	-	-	-	(3,476,692)
Total other financing sources (uses)	-	378,403	870,273	1,643,372	-	-	-	15,198,400
Net change in fund balance	1,387,425	1,309,739	140,689	24,927	4,731	623	-	5,853,596
Fund balance - beginning	265,748	3,637,928	509,375	989,482	142,900	11,130	-	13,504,841
Fund balance - ending	\$ 1,653,173	4,947,667	650,064	1,014,409	147,631	11,753	-	19,358,437

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-3

Virginia Public Assistance Fund
 Schedule of Revenues and Other Financing Source - Budget and Actual
 Year Ended June 30, 2006

	Revised Budget	Actual	Variance Positive (Negative)
REVENUES			
Intergovernmental revenues:			
Commonwealth of Virginia	\$ 5,710,338	4,642,204	(1,068,134)
Federal government	7,843,466	9,223,996	1,380,530
Total intergovernmental revenue	13,553,804	13,866,200	312,396
Recovered costs	-	26,358	26,358
Charges for services	-	6,370	6,370
Investment income	-	33,000	33,000
Miscellaneous local revenues	-	3,266	3,266
Total revenues	13,553,804	13,935,194	381,390
OTHER FINANCING SOURCE			
Transfer from the General Fund	6,615,223	6,615,223	-
Total revenues and other financing sources	\$ 20,169,027	20,550,417	381,390

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-4

Virginia Public Assistance Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2006

	Revised Budget	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay				
EXPENDITURES							
Public welfare:							
Bureau of Public Assistance	\$ 4,696,048	4,278,743	-	4,278,743	417,305	-	417,305
Administration	10,336,201	9,876,422	-	9,876,422	459,779	25,342	434,437
Employment Service Program/VIEW	4,212,190	3,940,866	-	3,940,866	271,324	-	271,324
Food Stamp Administration	945,678	836,030	-	836,030	109,648	441	109,207
Other special programs	102,593	82,480	-	82,480	20,113	-	20,113
Total expenditures and encumbrances	\$ 20,292,710	19,014,541	-	19,014,541	1,278,169	25,783	1,252,386

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-5

Community Services Fund
 Schedule of Revenues and Other Financing Source - Budget and Actual
 Year Ended June 30, 2006

	Revised Budget	Actual	Variance Positive (Negative)
REVENUES			
Intergovernmental revenues:			
From the Commonwealth of Virginia:			
Substance abuse grants	\$ 739,181	782,836	43,655
Mental health grants	4,583,870	4,268,710	(315,160)
Mental retardation grants	584,126	525,477	(58,649)
Total from the Commonwealth of Virginia	5,907,177	5,577,023	(330,154)
From the Federal government:			
Substance abuse and mental health and retardation grant	1,325,898	1,197,221	(128,677)
Charges for services:			
Mental health fees	1,162,999	1,378,991	215,992
Mental retardation fes	653,719	1,037,425	383,706
Mental retardation Medicaid waivers	271,000	12,460	(258,540)
Substance abuse fees	152,931	188,998	36,067
Total charges for services	2,240,649	2,617,874	377,225
Recovered costs	-	1,586	1,586
Investment income	-	133,047	133,047
Total revenues	9,473,724	9,526,751	53,027
OTHER FINANCING SOURCE			
Transfer from the General Fund	5,211,903	5,211,903	-
Total revenues and other financing sources	\$ 14,685,627	14,738,654	53,027

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-6

Community Services Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2006

	Expenditures					Unencumbered Balance	
	Revised Budget	Operating	Capital Outlay	Total	Unexpended Balance		Encumbrances
EXPENDITURES - Public welfare	\$14,650,175	13,271,000	-	13,271,000	1,379,175	130,231	1,248,944
Total expenditures and encumbrances	\$14,650,175	13,271,000	-	13,271,000	1,379,175	130,231	1,248,944

CITY OF CHESAPEAKE, VIRGINIA*Schedule P-7*

Conference Center Fund
Schedule of Revenues - Budget and Actual
Year Ended June 30, 2006

	Revised Budget	Actual	Variance Positive (Negative)
REVENUES			
Restaurant food tax	\$ 1,447,904	1,655,837	207,933
Lodging sales tax	505,920	508,205	2,285
Revenues from use of property	275,000	272,037	(2,963)
Recovered costs	6,000	905	(5,095)
Investment income	-	28,955	28,955
Charges for services	579,000	593,280	14,280
Sale of food and beverages	1,715,500	1,799,282	83,782
Miscellaneous revenue	2,000	7,698	5,698
Total revenues	\$ 4,531,324	4,866,199	334,875

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-8

Conference Center Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2006

	Expenditures					Unexpended Balance	Encumbrances	Unencumbered Balance
	Revised Budget	Operating	Capital Outlay	Total	Unexpended Balance			
EXPENDITURES - General government	\$ 4,037,931	3,963,685	-	3,963,685	74,246	750	73,496	
Total expenditures and encumbrances	\$ 4,037,931	3,963,685	-	3,963,685	74,246	750	73,496	

Community Development Fund, Interagency Consortium Fund, Community Corrections Fund,
 Fee Supported Activities Fund, Tax Increment Financing Fund, Grants Fund, E-911 Operations Fund,
 and Chesapeake Juvenile Services Fund
 Schedule of Revenues and Other Financing Sources - Budget and Actual
 Year Ended June 30, 2006

	Revised Budget	Actual	Variance Positive (Negative)
Community Development Fund			
Revenues			
Intergovernmental revenues from the Federal government:			
Community Development Block grant	\$ 1,403,905	1,419,654	15,749
Home Rehabilitation program	684,820	493,848	(190,972)
Program income	15,581	179,969	164,388
Investment Income	-	4,172	4,172
Total revenues	\$ 2,104,306	2,097,643	(6,663)
Interagency Consortium Fund			
Revenues			
Intergovernmental revenues:			
Commonwealth of Virginia	\$ 1,778,466	1,702,606	(75,860)
Charges for services	-	256	256
Investment Income	-	52,076	52,076
Total revenues	1,778,466	1,754,938	(23,528)
Other financing source - transfer from the General Fund	1,970,777	1,970,777	-
Total revenues and other financing source	\$ 3,749,243	3,725,715	(23,528)
Community Corrections Fund			
Revenues			
Intergovernmental revenues from the Commonwealth of Virginia:			
Community Corrections Act	\$ -	439,813	439,813
Total revenues	-	439,813	439,813
Other financing source - transfer from the General Fund	90,520	51,998	(38,522)
Total revenues and other financing source	\$ 90,520	491,811	401,291
Fee Supported Activities Fund			
Revenues			
Charges for services	\$ 38,750	102,390	63,640
Recovered costs	-	21,389	21,389
Investment Income	-	13,984	13,984
Total revenues	38,750	137,763	99,013
Other financing source - transfer from the General Fund	50,000	50,000	-
Total revenues and other financing source	\$ 88,750	187,763	99,013
Tax Increment Financing Fund			
Revenues			
Taxes on real property	\$ 1,819,565	1,706,706	(112,859)
Total revenues and other financing source	\$ 1,819,565	1,706,706	(112,859)
Grants Fund			
Revenues			
Intergovernmental revenues:			
Commonwealth of Virginia	\$ 797,197	926,968	129,771
Federal government	3,211,783	3,297,556	85,773
Investment Income	-	65,790	65,790
Charges for services	10,677	59,574	48,897
Miscellaneous revenue	365,957	586,014	220,057
Total revenues	4,385,614	4,935,902	550,288
Other financing sources			
Transfer from the General Fund	344,200	344,190	(10)
Transfer from other funds	92,213	92,213	-
Total other financing sources	436,413	436,403	(10)
Total revenues and other financing source	\$ 4,822,027	5,372,305	550,278
E-911 Operations Fund			
Revenues			
Consumer telephone tax E-911	\$ 3,340,000	3,093,026	(246,974)
Intergovernmental revenues from the Commonwealth of Virginia:			
Wireless E-911 service board	1,077,750	547,552	(530,198)
Investment Income	-	1,753	1,753
Total revenues	4,417,750	3,642,331	(775,419)

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-9, Continued

Community Development Fund, Interagency Consortium Fund, Community Corrections Fund,
 Fee Supported Activities Fund, Tax Increment Financing Fund, Grants Fund, E-911 Operations Fund,
 and Chesapeake Juvenile Services Fund
 Schedule of Revenues and Other Financing Sources - Budget and Actual
 Year Ended June 30, 2006

	Revised Budget	Actual	Variance Positive (Negative)
Other financing sources			
Transfer from the General Fund	2,372,179	2,372,179	-
Total other financing sources	2,372,179	2,372,179	-
Total revenues and other financing sources	\$ 6,789,929	6,014,510	(775,419)
Chesapeake Juvenile Services Fund			
Revenues			
Intergovernmental revenues:			
Commonwealth of Virginia	\$ -	2,967,108	2,967,108
Recovered costs	5,589,384	1,812,432	(3,776,952)
Total revenues	5,589,384	4,779,540	(809,844)
Other financing sources			
Transfer from the General Fund	1,560,797	1,560,797	-
Transfer from other funds	-	82,575	82,575
Total other financing sources	1,560,797	1,643,372	82,575
Total revenues and other financing source	\$ 7,150,181	6,422,912	(727,269)

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-10

Community Development Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2006

	Expenditures - Public Welfare			Total	Unexpended Balance	Encumbrances	Unencumbered Balance
	Prior Years	Current Year	Total				
HUD- Twenty-Three:							
HOME program grant	\$ 493,310	(2,672)	486,981	6,329	-	6,329	
Total HUD-Twenty-Three	493,310	(2,672)	486,981	6,329	-	6,329	
HUD- Twenty-Four:							
Administrative project costs	88,671	11,351	99,825	(11,154)	-	(11,154)	
Other project costs	35,000	-	5,700	29,300	-	29,300	
HOME program grant	588,613	5,344	588,614	(1)	-	(1)	
Plugsville sewer assistance	144,607	900	1,400	143,207	-	143,207	
Total HUD-Twenty-Four	856,891	17,195	695,539	161,352	-	161,352	
HUD- Twenty-Five:							
Administrative project costs	5,737	(5)	5,732	5	-	5	
Other project costs	101,222	3,123	104,345	(3,123)	-	(3,123)	
HOME program grant	1,424,913	(1,701)	1,422,127	2,786	-	2,786	
Rehabilitation	274,949	-	239,223	35,726	-	35,726	
Section 108 debt service	3,123	-	3,123	-	-	-	
Total HUD-Twenty-Five	1,809,944	1,417	1,774,550	35,394	-	35,394	
HUD- Twenty-Six:							
Administrative project costs	7,580	(202)	7,380	200	-	200	
Other project costs	160,011	(3,123)	156,887	3,124	-	3,124	
HOME program grant	1,163,493	82,454	1,131,192	32,301	-	32,301	
Rehabilitation	75,361	-	75,361	-	-	-	
Environmental grants	96,580	-	91,328	5,252	-	5,252	
Finance grant	15,313	-	15,312	1	-	1	
Section 108 debt service	347,090	-	347,090	-	-	-	
Total HUD-Twenty-Six	1,865,428	79,129	1,824,550	40,878	-	40,878	
HUD- Twenty-Seven:							
Other project costs	56,312	-	56,312	-	-	-	
HOME program grant	1,284,093	331,477	1,124,338	159,755	-	159,755	
Rehabilitation	93,461	-	93,461	-	-	-	
Environmental grants	118,079	-	118,079	-	-	-	
Finance grant	28,164	-	28,164	-	-	-	
Section 108 debt service	350,229	-	350,229	-	-	-	
Total HUD-Twenty-Seven	\$ 1,930,338	331,477	1,770,583	159,755	-	159,755	

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-10, Continued

Community Development Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2006

	Appropriations	Expenditures - Public Welfare		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year				
HUD- Twenty-Eight:							
Other project costs	\$ 129,334	90,747	5,261	96,008	33,326	-	33,326
HOME program grant	1,140,498	205,895	118,159	324,054	816,444	-	816,444
Rehabilitation	60,416	53,831	6,935	60,766	(350)	-	(350)
Environmental grants	86,973	86,973	-	86,973	-	-	-
Finance grant	22,228	22,228	-	22,228	-	-	-
Section 108 debt service	352,321	352,321	-	352,321	-	-	-
Total HUD-Twenty-Eight	1,791,770	811,995	130,355	942,350	849,420	-	849,420
HUD- Twenty-Nine:							
Administrative project costs	239,850	239,795	(460)	239,335	515	-	515
Other project costs	352,226	291,371	10,743	302,114	50,112	-	50,112
HOME program grant	697,329	379,221	66,281	445,502	251,827	-	251,827
Rehabilitation	77,086	45,825	31,340	77,165	(79)	-	(79)
Environmental grants	96,431	96,431	-	96,431	-	-	-
Finance grant	30,880	24,778	-	24,778	6,102	-	6,102
Fire grants	5,000	5,000	-	5,000	-	-	-
Section 108 loan program	720,000	720,000	-	720,000	-	-	-
Section 108 debt service	400,000	400,000	-	400,000	-	-	-
Total HUD-Twenty-Nine	2,618,802	2,202,421	107,904	2,310,325	308,477	-	308,477
HUD- Thirty:							
Administrative project costs	247,679	238,515	7,093	245,608	2,071	-	2,071
Other project costs	311,496	265,387	13,619	279,006	32,490	-	32,490
HOME program grant	811,302	-	45,964	45,964	765,338	-	765,338
Rehabilitation	186,379	47,360	26,068	73,428	112,951	-	112,951
Environmental grants	5,000	2,091	8,327	10,418	(5,418)	5,400	(10,818)
Finance grant	136,431	86,542	9,661	96,203	40,228	-	40,228
Fire grants	539,424	22,089	2,000	24,089	515,335	-	515,335
Section 108 debt service	467,679	330,103	137,576	467,679	-	-	-
Total HUD-Thirty	2,705,390	992,087	250,308	1,242,395	1,462,995	5,400	1,457,595
HUD- Thirty-One:							
Administrative project costs	242,954	-	317,886	317,886	(74,932)	-	(74,932)
Other project costs	287,740	-	161,426	161,426	126,314	-	126,314
HOME program grant	690,401	-	-	-	690,401	-	690,401
Rehabilitation	77,194	-	57,468	57,468	19,726	-	19,726
Environmental grants	91,609	-	80,328	80,328	11,281	-	11,281
Finance grant	40,998	-	13,142	13,142	27,856	-	27,856
Fire grants	4,750	-	1,999	1,999	2,751	-	2,751
Section 108 debt service	380,000	-	246,462	246,462	133,538	-	133,538
Total HUD-Thirty-One	1,815,646	-	878,711	878,711	936,935	-	936,935
Total expenditures and encumbrances	\$ 15,887,519	10,132,160	1,793,824	11,925,984	3,961,535	5,400	3,956,135

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-11

Interagency Consortium Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2006

	Revised Budget	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay				
EXPENDITURES							
Public welfare:							
Contract services	\$ 3,229,015	2,897,197	-	2,897,197	331,818	-	331,818
Administrative expenses	239,154	214,041	-	214,041	25,113	-	25,113
Total expenditures and encumbrances	\$ 3,468,169	3,111,238	-	3,111,238	356,931	-	356,931

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-12

Community Corrections Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2006

	Revised Budget	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay				
EXPENDITURES							
General government:							
Diversion services	\$ 179,005	175,172	-	175,172	3,833	731	3,102
Pre-trial services	284,165	285,345	-	285,345	(1,180)	-	(1,180)
Total expenditures and encumbrances	\$ 463,170	460,517	-	460,517	2,653	731	1,922

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-13

Fee Supported Activities Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2006

	Revised Budget	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay				
EXPENDITURES - Public safety	\$ 262,331	153,139	-	153,139	109,192	-	109,192
Total expenditures and encumbrances	\$ 262,331	153,139	-	153,139	109,192	-	109,192

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-14

Tax Increment Financing Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2006

	Revised Budget	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay				
EXPENDITURES - General Government	\$ 722,325	319,281	-	319,281	403,044	7,521	395,523
Total expenditures and encumbrances	\$ 722,325	319,281	-	319,281	403,044	7,521	395,523

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-15

Grants Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2006

	Revised Budget	Expenditures			Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Year	Current Year					
EXPENDITURES								
General government	\$ 5,058,399	2,640,492	944,803	3,585,295	1,473,104	5,000	1,468,104	
Public safety	15,165,130	9,400,905	1,814,384	11,215,289	3,949,841	1,444,872	2,504,969	
Parks	563,817	499,256	183,101	682,357	(118,540)	4,003	(122,543)	
Public welfare	5,670,042	2,856,647	1,054,135	3,910,782	1,759,260	136	1,759,124	
Public works	38,000	-	8,143	8,143	29,857	-	29,857	
Total expenditures and encumbrances	\$26,495,388	15,397,300	4,004,566	19,401,866	7,093,522	1,454,011	5,639,511	

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-16

E-911 Operations Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2006

	Revised Budget	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay				
EXPENDITURES - Public safety	\$ 5,713,639	4,371,915	-	4,371,915	1,341,724	1,158,698	183,026
Total expenditures and encumbrances	\$ 5,713,639	4,371,915	-	4,371,915	1,341,724	1,158,698	183,026

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-17

Chesapeake Juvenile Services Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2006

	Revised Budget	Expenditures			Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay					
EXPENDITURES - General government	\$ 7,201,918	6,397,985	-	-	6,397,985	803,933	2,750	801,183
Total expenditures and encumbrances	\$ 7,201,918	6,397,985	-	-	6,397,985	803,933	2,750	801,183

Nonmajor Enterprise Funds

Northwest River Park Fund – To account for the operation of the City’s park concession and campground on the Northwest River. This fund is designed to be primarily self-supporting through user charges.

Jordan Bridge Fund – To account for the operation of the Jordan Bridge which was donated to the City by the South Norfolk Bridge Commission. This fund is designed to be primarily self-supporting through user charges.

Recreation Fund – To account for the operation of various City recreation, arts, and crafts programs. This fund is designed to be primarily self-supporting through fees charged to participants.



CITY OF CHESAPEAKE, VIRGINIA

Schedule Q-1

Combining Statement of Net Assets
 Nonmajor Enterprise Funds
 June 30, 2006

	Northwest River Park	Jordan Bridge	Recreation	Total Nonmajor Enterprise Funds
ASSETS				
Current assets:				
Cash and temporary investments	\$ 395,764	1,647,203	853,338	2,896,305
Receivables:				
Accounts	1,251	26,154	374	27,779
Interest	-	39,516	-	39,516
Inventory of materials and supplies	2,834	-	6,259	9,093
Total current assets	399,849	1,712,873	859,971	2,972,693
Noncurrent assets:				
Capital assets:				
Land	-	383,694	-	383,694
Construction in progress	-	-	12,912	12,912
Buildings	-	19,624	10,822	30,446
Improvements other than buildings	73,793	-	-	73,793
Equipment and vehicles	48,543	132,687	382,761	563,991
Infrastructure	-	5,050,444	-	5,050,444
Less accumulated depreciation	(63,604)	(3,489,743)	(296,840)	(3,850,187)
Total capital assets, net of accumulated depreciation	58,732	2,096,706	109,655	2,265,093
Total noncurrent assets	58,732	2,096,706	109,655	2,265,093
Total assets	\$ 458,581	3,809,579	969,626	5,237,786
LIABILITIES AND NET ASSETS				
Liabilities				
Current liabilities:				
Accounts payable	\$ 3,629	5,056	48,965	57,650
Accrued expenses and other liabilities	233	5,152	684	6,069
Deferred revenues	10,479	-	50,277	60,756
Current portion of accrued vacation, sick pay, and overtime leave	1,790	20,897	1,648	24,335
Total current liabilities	16,131	31,105	101,574	148,810
Noncurrent liability:				
Accrued vacation, sick pay, and overtime leave	2,364	27,587	2,174	32,125
Total noncurrent liability	2,364	27,587	2,174	32,125
Total liabilities	18,495	58,692	103,748	180,935
Net Assets				
Invested in capital assets, net of related debt	58,732	2,096,706	96,744	2,252,182
Unrestricted	381,354	1,654,181	769,134	2,804,669
Total net assets	440,086	3,750,887	865,878	5,056,851
Total liabilities and net assets	\$ 458,581	3,809,579	969,626	5,237,786

CITY OF CHESAPEAKE, VIRGINIA

Schedule Q-2

Combining Statement of Revenue, Expenses, and Changes in Fund Net Assets
 Nonmajor Enterprise Funds
 Year Ended June 30, 2006

	Northwest River Park	Jordan Bridge	Recreation	Total Nonmajor Enterprise Funds
REVENUES				
Charges for services:				
Tolls and tickets	\$ -	1,533,910	-	1,533,910
Rental fees	77,822	-	3,428	81,250
Recreation fees	35,396	-	452,801	488,197
Recovered costs	-	707	-	707
Other	15,715	4,088	237,993	257,796
Total operating revenues	128,933	1,538,705	694,222	2,361,860
OPERATING EXPENSES				
Purchases for resale	9,223	-	33,825	43,048
General and administrative	18,274	57,338	66,900	142,512
Other salaries and wages	41,273	521,603	130,630	693,506
Other fringe benefits	12,200	170,400	22,903	205,503
Other repairs and supplies	13,617	39,316	118,975	171,908
Equipment rental	660	5,124	5,166	10,950
Other contractual services	11,164	120,289	224,866	356,319
Depreciation and amortization	3,690	168,593	62,324	234,607
Total operating expenses	110,101	1,082,663	665,589	1,858,353
Operating income (loss)	18,832	456,042	28,633	503,507
NONOPERATING REVENUES				
Investment income	10,324	79,850	22,258	112,432
Total nonoperating revenues (expenses)	10,324	79,850	22,258	112,432
Income (loss) before transfers	29,156	535,892	50,891	615,939
Transfers out	(10,324)	-	(22,258)	(32,582)
Increase (decrease) in net assets	18,832	535,892	28,633	583,357
Total net assets - beginning	421,254	3,214,995	837,245	4,473,494
Total net assets - ending	\$ 440,086	3,750,887	865,878	5,056,851

CITY OF CHESAPEAKE, VIRGINIA

Schedule Q-3

Combining Statement of Cash Flows
 Nonmajor Enterprise Funds
 Year Ended June 30, 2006

	Northwest River Park	Jordan Bridge	Recreation	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 128,841	1,527,990	676,449	2,333,280
Payments to suppliers	(51,717)	(228,734)	(412,867)	(693,318)
Payments to employees	(52,363)	(691,836)	(157,363)	(901,562)
Net cash provided by operating activities	24,761	607,420	106,219	738,400
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers out	(10,324)	-	(22,258)	(32,582)
Net cash used in noncapital financing activities	(10,324)	-	(22,258)	(32,582)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	-	-	(12,912)	(12,912)
Net cash used in capital and related financing activities	-	-	(12,912)	(12,912)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income	10,324	43,145	22,258	75,727
Net cash provided by investing activities	10,324	43,145	22,258	75,727
Net increase in cash and temporary investments	24,761	650,565	93,307	768,633
Cash and temporary investments beginning of year	371,003	996,638	760,031	2,127,672
Cash and temporary investments end of year	\$ 395,764	1,647,203	853,338	2,896,305

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule Q-3, Continued

Combining Statement of Cash Flows
 Nonmajor Enterprise Funds
 Year Ended June 30, 2005

	Northwest River Park	Jordan Bridge	Recreation	Total Nonmajor Enterprise Funds
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 18,832	456,042	28,633	503,507
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	3,690	168,593	62,324	234,607
Change in assets and liabilities increasing (decreasing) cash and temporary investments:				
Receivables	(425)	(10,715)	8,548	(2,592)
Inventory of materials and supplies	(961)	-	(2,142)	(3,103)
Accounts payable	2,182	(5,419)	39,007	35,770
Deferred revenues	333	-	(26,321)	(25,988)
Accrued expenses and other liabilities	160	(5,606)	(1,249)	(6,695)
Accrued vacation and sick pay	950	4,525	(2,581)	2,894
Total adjustments	5,929	151,378	77,586	234,893
Net cash provided by operating activities	\$ 24,761	607,420	106,219	738,400

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Internal Service Funds

Information Technology Fund – To account for the operation of the City’s central information technology, including technology development and support, and radio and communications operations.

City Garage Fund – To account for the maintenance and repair of City-owned vehicles.

Self-Insurance Fund – To account for the City’s self-insurance program.



CITY OF CHESAPEAKE, VIRGINIA

Schedule R-1

Combining Statement of Net Assets
Internal Service Funds
June 30, 2006

	Information Technology	City Garage	Self- Insurance	Total
ASSETS				
Current assets:				
Cash and temporary investments	\$ 1,303,093	3,924,585	14,806,430	20,034,108
Receivables:				
Accounts	183,107	469,751	-	652,858
Interest	-	-	115,457	115,457
Inventory of materials and supplies	-	431,605	-	431,605
Prepaid expenses	-	-	842,897	842,897
Total current assets	1,486,200	4,825,941	15,764,784	22,076,925
Noncurrent assets:				
Capital assets:				
Construction in progress	255,525	-	-	255,525
Buildings	-	117,649	20,930	138,579
Improvements other than buildings	228,124	170,179	-	398,303
Equipment and vehicles	4,022,849	56,529,631	56,136	60,608,616
Less accumulated depreciation	(2,995,797)	(36,139,840)	(65,746)	(39,201,383)
Total capital assets, net of accumulated depreciation	1,510,701	20,677,619	11,320	22,199,640
Total noncurrent assets	1,510,701	20,677,619	11,320	22,199,640
Total assets	\$ 2,996,901	25,503,560	15,776,104	44,276,565
LIABILITIES AND NET ASSETS				
Liabilities				
Current liabilities:				
Accounts payable	\$ 153,017	358,804	31,822	543,643
Accrued expenses and other liabilities	8,344	13,185	-	21,529
Current portion of obligations under capital leases	404,956	2,015,783	-	2,420,739
Current portion of accrued vacation, sick pay, and overtime leave	139,956	39,589	6,015	185,560
Current portion of liability for self-insurance losses	-	-	4,248,159	4,248,159
Total current liabilities	706,273	2,427,361	4,285,996	7,419,630
Noncurrent liabilities:				
Obligations under capital leases	935,916	4,658,985	-	5,594,901
Accrued vacation, sick pay, and overtime leave	184,770	52,266	7,939	244,975
Liability for self-insurance losses	-	-	16,992,636	16,992,636
Total noncurrent liabilities	1,120,686	4,711,251	17,000,575	22,832,512
Total liabilities	1,826,959	7,138,612	21,286,571	30,252,142
Net Assets				
Invested in capital assets, net of related debt	506,670	14,002,849	11,320	14,520,839
Unrestricted	663,272	4,362,099	(5,521,787)	(496,416)
Total net assets	1,169,942	18,364,948	(5,510,467)	14,024,423
Total liabilities and net assets	\$ 2,996,901	25,503,560	15,776,104	44,276,565

CITY OF CHESAPEAKE, VIRGINIA

Schedule R-2

Combining Statement of Revenue, Expenses, and Changes in Fund Net Assets
Internal Service Funds
Year Ended June 30, 2006

	Information Technology	City Garage	Self- Insurance	Total
REVENUES				
Billings to departments	\$ 7,245,725	12,022,758	4,927,825	24,196,308
Billings to outside agencies & component units	567,335	905,881	-	1,473,216
Other revenue	22	8,685	-	8,707
Recovered costs	45,481	44,843	148,132	238,456
Total operating revenues	7,858,563	12,982,167	5,075,957	25,916,687
OPERATING EXPENSES				
Cost of materials billed	-	3,776,985	-	3,776,985
Purchases for resale	-	1,670,754	-	1,670,754
General and administrative	375,495	376,314	24,404	776,213
Other salaries and wages	3,048,960	1,389,809	171,915	4,610,684
Other fringe benefits	951,853	549,675	62,787	1,564,315
Self-insurance losses	-	-	3,258,283	3,258,283
Indemnity and medical claims	-	-	2,064,689	2,064,689
Other repairs and supplies	1,531,693	1,110,812	8,411	2,650,916
Equipment rental	449,273	8,530	2,195	459,998
Other contractual services	446,799	197,208	55,552	699,559
Depreciation and amortization	294,779	4,165,942	522	4,461,243
Insurance premiums	-	-	1,129,899	1,129,899
Total operating expenses	7,098,852	13,246,029	6,778,657	27,123,538
Operating income (loss)	759,711	(263,862)	(1,702,700)	(1,206,851)
NONOPERATING REVENUES (EXPENSES)				
Investment income	33,992	102,375	547,633	684,000
Interest expense	(46,747)	(196,045)	(1,084)	(243,876)
Gain on sale of equipment	-	74,771	-	74,771
Loss on sale of equipment	-	(122,259)	-	(122,259)
Total nonoperating revenue (expenses)	(12,755)	(141,158)	546,549	392,636
Income (loss) before transfers and contributions	746,956	(405,020)	(1,156,151)	(814,215)
Transfers in	-	715,569	10,661	726,230
Transfers out	(41,932)	(102,375)	(90,280)	(234,587)
Capital contributions	-	9,150	-	9,150
Increase (decrease) in net assets	705,024	217,324	(1,235,770)	(313,422)
Total net assets - beginning	464,918	18,147,624	(4,274,697)	14,337,845
Total net assets - ending	\$ 1,169,942	18,364,948	(5,510,467)	14,024,423

CITY OF CHESAPEAKE, VIRGINIA

Schedule R-3

Combining Statement of Cash Flows
Internal Service Funds
Year Ended June 30, 2006

	Information Technology	City Garage	Self- Insurance	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 7,675,457	12,672,224	5,075,957	25,423,638
Payments to suppliers	(2,888,412)	(7,443,300)	(6,311,830)	(16,643,542)
Payments to employees	(3,978,197)	(1,959,008)	(233,484)	(6,170,689)
Net cash provided by operating activities	808,848	3,269,916	(1,469,357)	2,609,407
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	-	715,569	10,661	726,230
Transfers out	(41,932)	-	(90,280)	(132,212)
Repayment of obligations under capital leases for equipment not capitalized	(319,430)	-	-	(319,430)
Net cash used in noncapital financing activities	(361,362)	715,569	(79,619)	274,588
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(69,565)	(4,944,708)	-	(5,014,273)
Interest paid	(46,747)	(196,045)	(1,084)	(243,876)
Repayment of obligations under capital leases	(65,174)	(2,400,975)	-	(2,466,149)
Repayment of notes payable	(48,578)	-	-	(48,578)
Proceeds from lease payable	-	3,441,800	-	3,441,800
Proceeds from sale of capital assets	-	74,771	-	74,771
Net cash used in capital and related financing activities	(230,064)	(4,025,157)	(1,084)	(4,256,305)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income	33,992	102,375	477,223	613,590
Transfers out	-	(102,375)	-	(102,375)
Net cash provided by investing activities	33,992	-	477,223	511,215
Net increase in cash and temporary investments	251,414	(39,672)	(1,072,837)	(861,095)
Cash and temporary investments beginning of year	1,051,679	3,964,257	15,879,267	20,895,203
Cash and temporary investments end of year	\$ 1,303,093	3,924,585	14,806,430	20,034,108

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule R-3, Continued

Combining Statement of Cash Flows
 Internal Service Funds
 Year Ended June 30, 2006

	Information Technology	City Garage	Self- Insurance	Total
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 759,711	(263,862)	(1,702,700)	(1,206,851)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	294,779	4,165,942	522	4,461,243
Change in assets and liabilities increasing (decreasing) cash and temporary investments:				
Receivables	(183,107)	(309,943)	-	(493,050)
Inventory of materials and supplies	-	(85,171)	-	(85,171)
Prepaid expenses and other assets	-	-	(43,952)	(43,952)
Accounts payable	(93,495)	(217,526)	31,208	(279,813)
Accrued expenses and other liabilities	8,344	13,185	244,347	265,876
Liability for self insurance losses	-	-	-	-
Accrued vacation and sick pay	22,616	(32,709)	1,218	(8,875)
Total adjustments	49,137	3,533,778	233,343	3,816,258
Net cash provided by operating activities	\$ 808,848	3,269,916	(1,469,357)	2,609,407
Supplemental information on significant noncash transactions:				
Borrowing under capital leases:				
Information Technology	\$ 336,881			
City Garage Fund	3,441,801			

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Fiduciary Fund Financial Statement

Agency Fund:

Special Welfare Fund - To account for the transfer of funds provided by the Virginia Public Assistance Fund for aid to dependent children.



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CITY OF CHESAPEAKE, VIRGINIA

Schedule S

Statement of Changes in Assets and Liabilities
 Special Welfare Fund
 Year Ended June 30, 2006

	Balances at July 1, 2005	Additions	Deductions	Balances at June 30, 2006
ASSETS				
Cash and temporary investments	\$ 21,335	60,297	69,279	12,353
Total current assets	\$ 21,335	60,297	69,279	12,353
LIABILITIES				
Due to children under foster care	\$ 21,335	60,297	69,279	12,353
Total liabilities	\$ 21,335	60,297	69,279	12,353

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Other Component Units

Other Component Units – Include the Chesapeake Mosquito Control Commission and the Chesapeake Port Authority.



CITY OF CHESAPEAKE, VIRGINIA

Schedule T-1

Combining Balance Sheet and Statement of Net Assets
 Other Component Units
 June 30, 2006

	Chesapeake Mosquito Control Commission	Chesapeake Port Authority
ASSETS		
Current assets:		
Cash and temporary investments	\$ 4,629,392	4,095
Inventory of materials and supplies	393,231	-
Total current assets	5,022,623	4,095
Total assets	\$ 5,022,623	4,095
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities:		
Accounts payable	\$ 130,265	-
Total current liabilities	130,265	-
Noncurrent liabilities:		
Due to primary government	-	944,407
Total noncurrent liabilities	-	944,407
Total liabilities	130,265	944,407
Fund Balance		
Reserved:		
Encumbrances	240,456	-
Inventory	393,231	-
Other reserves	224,332	-
Unreserved	4,034,339	-
Net Assets		
Unrestricted	-	(940,312)
Total fund balance and net assets	4,892,358	(940,312)
Total liabilities, fund balance, and net assets	\$ 5,022,623	4,095
Reconciliation to Net Assets:		
Total fund balance	\$ 4,892,358	
Capital assets - net of depreciation	1,909,736	
Net Assets	\$ 6,802,094	

CITY OF CHESAPEAKE, VIRGINIA

Schedule T-2

Statement of Revenue, Expenditures, and Changes in Fund Balance
 Other Component Units
 Year Ended June 30, 2006

	Chesapeake Mosquito Control Commission
REVENUES	
Property taxes	\$ 4,829,586
Investment income	75,354
Other	5,448
Total operating revenues	4,910,388
OPERATING EXPENSES	
Other salaries and wages	1,833,615
Other fringe benefits	790,338
Other repairs and supplies	616,864
Insurance premiums	186,543
Capital outlay	157,365
Payments to the General Government	300,000
Other	254,238
Total expenditures	4,138,963
Excess of revenues over expenditures	771,425
Fund balance - beginning	4,120,933
Fund balance - ending	\$ 4,892,358

Reconciliation to Change in Net Assets:

Governmental funds report capital outlay as expenditures. However, when reporting net assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Change in fund balance	\$ 771,425
Depreciation expense	(155,970)
Capital outlay expenditures	157,365
Change in Net Assets	\$ 772,820

CITY OF CHESAPEAKE, VIRGINIA

Schedule T-3

Statement of Revenue, Expenditures, and Changes in Fund Net Assets

Other Component Units

Year Ended June 30, 2006

	Chesapeake Port Authority	
OPERATING EXPENSES		
General and administrative	\$	12,984
Total operating expenditures		12,984
Operating loss		(12,984)
NONOPERATING REVENUES		
Investment income		35
Appropriations from the City		12,954
Total nonoperating revenues		12,989
Increase (decrease) in net assets		5
Net assets - beginning		(940,317)
Net assets - ending	\$	(940,312)

CITY OF CHESAPEAKE, VIRGINIA**Schedule T-4**

Statement of Cash Flows
Other Component Units
Year Ended June 30, 2006

	Chesapeake Port Authority
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to suppliers	\$ (12,984)
Reimbursement from City	-
Net cash used in operating activities	(12,984)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Reimbursement from City	12,954
Net cash provided by noncapital financing activities	12,954
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	35
Net cash provided by investing activities	35
Net increase in cash and temporary investments	5
Cash and temporary investments beginning of year	4,090
Cash and temporary investments end of year	\$ 4,095
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (12,984)
Net cash used in operating activities	\$ (12,984)

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STATISTICAL SECTION



CITY OF CHESAPEAKE, VIRGINIA

Table 1

Net Assets by Component
Last Five Fiscal Years – Unaudited

	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental Activities					
Invested in capital assets, net of related debt	\$ 539,948,528	544,936,380	563,288,318	588,733,474	649,736,620
Restricted for:					
Capital projects	8,083,703	7,989,225	11,735,419	9,684,866	6,604,716
Debt service	15,682,603	15,626,869	15,699,358	10,976,974	7,585,894
Other purposes:					
Expendable	2,489,268	3,668,508	5,947,315	1,270,039	32,080,786
Nonexpendable	12,795	12,795	12,795	12,795	12,795
Unrestricted	91,868,082	98,889,061	104,355,168	158,375,919	175,198,047
Total governmental activities net assets	\$ 638,084,979	671,122,838	701,038,373	769,054,067	871,218,858
Business Type Activities					
Invested in capital assets, net of related debt	\$ 228,743,587	237,029,324	228,068,375	249,688,287	254,349,571
Restricted for:					
Capital projects	1,486,345	2,152,881	2,636,724	2,061,689	3,260,963
Debt service	7,118,289	5,948,680	6,789,536	5,710,688	5,532,370
Other purposes:					
Expendable	38,257,791	36,571,541	51,110,767	38,493,631	46,287,418
Nonexpendable	1,479,914	1,180,559	1,169,678	1,986,705	1,619,932
Unrestricted	277,085,926	282,882,985	289,775,080	297,941,000	311,050,254
Total business-type activities net assets	\$ 277,085,926	282,882,985	289,775,080	297,941,000	311,050,254
Primary Government					
Invested in capital assets, net of related debt	\$ 768,692,115	781,965,704	791,356,693	838,421,761	904,086,191
Restricted for:					
Capital projects	9,570,048	10,142,106	14,372,143	11,746,555	9,865,679
Debt service	22,800,892	21,575,549	22,488,894	16,687,662	13,118,264
Other purposes:					
Expendable	40,747,059	40,240,049	57,058,082	39,763,670	78,368,204
Nonexpendable	12,795	12,795	12,795	12,795	12,795
Unrestricted	93,347,996	100,069,620	105,524,846	160,362,624	176,817,979
Total primary government net assets	\$ 935,170,905	954,005,823	990,813,453	1,066,995,067	1,182,269,112
Component Units					
Invested in capital assets, net of related debt	\$ 55,519,786	68,023,154	72,780,433	76,186,297	84,249,220
Restricted for:					
Capital projects	11,127,232	8,992,924	8,533,984	6,602,465	5,669,625
Other purposes:					
Expendable	1,720,719	1,882,000	1,866,409	(10,102,135)	(13,520,512)
Nonexpendable	(6,741,990)	(10,675,859)	(13,647,190)	(10,102,135)	(13,520,512)
Unrestricted	61,625,747	68,222,219	69,533,636	72,686,627	76,398,333
Total component units net assets	\$ 61,625,747	68,222,219	69,533,636	72,686,627	76,398,333

(1) Ten years of information not available. The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002.

CITY OF CHESAPEAKE, VIRGINIA

Table 2

Changes in Net Assets
Last Five Fiscal Years - Unaudited

	Fiscal Year				
	2002	2003	2004	2005	2006
Program Revenues					
Governmental activities:					
Charges for Services:					
General government	\$ 9,437,972	11,271,768	12,610,106	12,691,638	11,164,814
Public safety	3,856,216	4,581,012	4,487,073	5,140,050	5,975,514
Public works	1,047,905	893,075	1,266,418	1,379,049	1,331,973
Parks	136,676	115,118	133,233	174,071	74,469
Public welfare	1,783,245	2,036,441	2,235,788	2,121,147	2,635,982
Operating grants and contributions	71,087,965	70,035,588	88,508,739	77,669,726	90,120,716
Capital grants and contributions	8,709,059	13,475,575	18,544,379	35,617,170	27,830,644
Total governmental activities program revenues	\$ 96,059,038	102,408,577	127,783,736	134,792,851	139,134,112
Recreation					
Business-type activities:					
Charges for Services:					
Public Utilities	\$ 34,632,317	34,453,540	39,898,644	39,725,069	42,572,239
Chesapeake Expressway	4,368,653	6,249,849	6,678,718	6,911,794	7,074,711
Stormwater Management	1,111,604	4,424,005	4,532,744	4,600,299	4,713,008
Northwest River Park	125,909	105,798	102,271	138,998	128,933
Jordan Bridge	5,869,474	1,104,234	1,089,250	1,649,017	1,538,705
Recreation	542,970	574,164	570,169	630,819	694,222
Operating grants and contributions	1,939,415	998,269	997,162	1,248,956	1,858,181
Capital grants and contributions	6,121,552	8,258,622	5,959,652	8,134,879	10,928,051
Total business-type program revenues	\$ 54,711,894	56,168,481	59,828,610	63,039,831	69,508,050
Total primary government program revenues	\$ 150,770,932	158,577,058	187,614,346	197,832,682	208,642,162
Component Units					
Charges for Services:					
Public Schools	\$ 6,617,048	7,174,775	7,536,856	7,287,354	7,870,493
Chesapeake Mosquito Control Commission	3,289,893	3,427,738	-	-	-
Economic Development Authority	40,823	300,000	-	-	-
Chesapeake Port Authority	32,500	234,252	-	-	-
Chesapeake Airport Authority	180,231	-	273,697	278,615	361,632
Operating grants and contributions	51,600,015	56,775,219	55,723,417	67,183,629	76,851,214
Capital grants and contributions	3,541,036	1,318,018	2,216,117	2,181,385	1,343,384
Total component unit program revenues	\$ 65,301,546	69,230,002	65,750,087	76,930,983	86,426,723
Total primary government and component units program revenues	\$ 216,072,478	227,807,060	253,364,433	274,763,665	295,068,885

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Changes in Net Assets
Last Five Fiscal Years - Unaudited

Table 2, (Continued)

	Fiscal Year				
	2002	2003	2004	2005	2006
Expenses					
Governmental activities:					
General government	\$ 84,448,270	80,503,601	107,595,440	102,155,781	101,278,295
Public safety	64,783,649	65,792,095	73,556,936	71,944,068	77,947,397
Public works	36,157,109	37,462,813	36,681,770	40,171,186	40,314,100
Parks	8,505,832	9,346,534	8,871,362	4,040,492	6,417,776
Public welfare	34,782,299	32,721,747	33,963,274	37,546,666	38,702,645
Education	127,641,137	134,217,915	134,528,877	143,874,317	157,328,449
Interest on long term debt	22,917,657	21,747,106	21,435,242	19,215,361	19,785,611
Depreciation and amortization - net unallocated portion	20,330,313	20,499,181	20,634,855	21,051,803	21,445,311
Total governmental activities	\$ 399,566,266	402,290,992	437,267,756	439,999,674	463,219,584
Business-type activities:					
Public Utilities	\$ 35,894,396	36,267,069	38,593,511	39,964,142	41,565,116
Chesapeake Expressway	2,399,388	8,956,642	8,730,072	8,822,878	9,353,137
Stormwater Management	985,979	2,665,521	3,391,274	3,578,748	3,244,651
Northwest River Park	94,993	96,570	83,006	103,767	110,101
Jordan Bridge	7,999,192	905,821	1,260,395	1,111,030	1,082,663
Recreation	424,166	590,973	537,006	629,371	665,589
Total business-type activities	\$ 47,798,114	49,482,596	52,595,264	54,209,936	56,021,257
Total primary government	\$ 447,364,380	451,773,588	489,863,020	494,209,610	519,240,841
Component units					
Public Schools	\$ 276,048,977	300,984,185	317,127,950	348,832,222	374,191,792
Chesapeake Mosquito Control Commission	2,861,611	3,381,853	3,593,597	3,606,347	4,137,568
Economic Development Authority	3,003,184	3,342,738	3,147,811	2,760,873	5,105,041
Chesapeake Port Authority	31,159	-	400	2,000	12,984
Chesapeake Airport Authority	984,715	1,035,264	1,173,685	1,151,836	1,202,651
Total component units	\$ 282,929,646	308,744,040	322,043,443	356,353,278	384,650,036
Net (Expense)/Revenue					
Governmental activities	\$ (303,507,228)	(299,882,415)	(309,482,020)	(305,206,823)	(324,085,472)
Business-type activities	6,913,780	6,685,885	7,233,346	8,829,895	13,486,793
Total primary government net expense	\$ (296,593,448)	(293,196,530)	(302,248,674)	(296,376,928)	(310,598,679)
Total component units net expense	(217,628,100)	(239,514,038)	(259,293,356)	(279,422,295)	(298,223,313)

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Changes in Net Assets
Last Five Fiscal Years - Unaudited

Table 2, (Continued)

	Fiscal Year				
	2002	2003	2004	2005	2006
General Revenue and Other Changes in Net Assets					
Governmental activities:					
Taxes (2):					
Property taxes, levied for general purposes	\$ 172,104,542	186,776,025	205,187,258	224,842,486	260,070,410
Other local taxes	26,121,116	n/a	n/a	n/a	n/a
Public service taxes	17,068,149	n/a	n/a	n/a	n/a
Sales taxes	15,191,835	n/a	n/a	n/a	n/a
Local sales and use taxes	n/a	26,452,698	29,744,620	31,989,281	34,355,722
Business license taxes	n/a	17,532,069	19,351,581	21,461,924	23,853,491
Consumer utility taxes	n/a	17,200,898	19,820,181	20,087,144	20,203,462
Other taxes	27,831,303	33,468,540	33,974,457	38,078,922	41,289,606
Grants and contributions not restricted to specific programs	28,089,957	28,333,399	29,354,088	31,790,594	33,769,560
Unrestricted investment earnings	3,064,209	1,549,235	1,307,168	3,132,655	8,312,030
Miscellaneous	2,066,037	676,900	255,430	990,374	3,906,011
Loss on disposition of assets	(15,126)	(46,502)	-	-	-
Transfers	1,195,621	1,037,012	402,772	849,137	489,971
Total general activities revenues & transfers	\$ 292,717,643	312,920,274	339,397,555	373,222,517	426,250,263
Business-type activities:					
Unrestricted investment earnings	\$ 24,842	148,186	61,521	185,162	112,432
Transfers	(1,195,621)	(1,037,012)	(402,772)	(849,137)	(489,971)
Total business-type activities revenues & transfers	\$ (1,170,779)	(888,826)	(341,251)	(663,975)	(377,539)
Total primary government revenues & transfers	\$ 291,546,864	312,031,448	339,056,304	372,558,542	425,872,724
Component Units:					
Payment from City	\$ 120,484,322	127,255,113	126,876,092	136,398,571	150,652,116
Grants and contributions not restricted to specific programs	110,076,825	118,549,819	132,018,587	145,451,853	149,142,199
Unrestricted investment earnings	68,678	24,185	9,668	73,136	1,204,100
Miscellaneous	19,588	271,971	1,700,426	651,726	936,605
Gain (loss) on disposition of assets	(315,750)	9,422	-	-	-
Total component units	\$ 230,333,663	246,110,510	260,604,773	282,575,286	301,935,020
Change in Net Assets					
Governmental activities	\$ (10,789,585)	13,037,859	29,915,535	68,015,694	102,164,791
Business-type activities	5,743,001	5,797,059	6,892,095	8,165,920	13,109,254
Total primary government net change in net assets	\$ (5,046,584)	18,834,918	36,807,630	76,181,614	115,274,045
Component Units	\$ 12,705,563	6,596,472	1,311,417	3,152,991	3,711,707

NOTES:

(1) The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002.

(2) Change in presentation for revenue beginning in 2003.

Table 3

CITY OF CHESAPEAKE, VIRGINIA

Fund Balances, Governmental Funds,
Last Ten Fiscal Years - Unaudited

	Fiscal Years									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Fund										
Reserved:										
Expendable	\$ 29,355,239	16,250,225	17,422,218	15,431,465	14,233,897	6,426,892	5,233,480	7,540,096	11,689,066	19,163,556
Unreserved:										
Designated for cash flow emergencies	15,674,477	18,287,359	17,542,113	18,902,848	19,847,762	20,571,440	22,079,730	24,111,563	25,590,428	28,188,802
Designated for operating emergencies	-	-	-	-	16,505,980	16,505,980	16,505,980	16,785,980	17,355,561	23,490,669
Designated - General Fund	-	-	186,538	3,068,624	1,453,683	3,988,991	1,520,106	834,642	1,772,905	2,073,599
Undesignated	27,753,844	24,616,004	27,346,818	35,849,589	19,671,195	10,470,970	17,105,425	22,218,033	44,393,697	77,023,045
Total general fund	\$ 72,783,560	59,153,588	62,497,687	73,252,526	71,712,517	57,964,273	62,444,721	71,490,314	100,801,657	149,939,671
All Other Governmental Funds										
Reserved:										
Expendable	\$ 57,138,113	58,279,954	33,824,229	30,796,614	28,244,640	22,279,871	20,963,764	36,369,243	79,765,826	66,586,197
Nonexpendable	12,795	12,795	12,795	12,795	12,795	12,795	12,795	12,795	12,795	12,795
Unreserved:										
Designated for debt service	18,051,018	22,263,804	14,410,752	17,561,581	21,919,014	21,793,882	22,072,376	22,098,361	22,935,812	27,015,545
Designated for construction projects	42,229,445	28,429,812	29,136,998	20,676,532	17,086,910	25,741,923	38,131,214	18,756,584	-	-
Designated - Special Revenue Funds	-	-	-	321,747	47	47	225,097	6,687,149	62,553	51,796
Undesignated - Capital Projects Fund	-	-	-	-	6,246,288	5,679,332	-	-	(10,387,836)	8,110,323
Undesignated - Special Revenue Funds	2,177,053	4,195,701	4,900,488	6,633,379	-	-	7,529,476	9,205,815	12,823,816	16,361,382
Undesignated - Permanent Funds	98,226	104,321	110,441	117,017	125,548	-	-	137,962	141,235	146,589
Total all other governmental funds	\$ 119,706,650	113,286,387	82,395,703	76,119,665	73,635,242	75,507,850	88,934,722	93,267,909	105,354,201	118,284,627
Total Governmental Funds	\$ 192,490,210	172,439,975	144,893,390	149,372,191	145,347,759	133,472,123	151,379,443	164,758,223	206,155,858	268,224,298

CITY OF CHESAPEAKE, VIRGINIA

Table 4

Statement of Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years - Unaudited

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
REVENUES										
General property taxes	\$ 149,684,559	156,250,695	160,541,780	164,829,570	166,443,901	173,500,445	187,609,314	203,503,495	224,815,562	254,570,961
Other local taxes	67,820,539	72,062,153	77,120,862	80,304,129	84,245,486	86,212,403	94,654,205	102,890,839	111,617,271	115,380,212
Licenses, permits, and fees	1,713,142	2,170,486	2,110,755	1,976,338	1,749,404	1,897,261	1,969,790	2,495,770	2,900,145	7,422,144
Fines and forfeitures	1,525,173	1,667,778	1,723,467	1,901,936	1,753,633	2,154,515	2,416,446	2,440,972	2,929,501	3,587,702
Investment income	9,726,363	9,680,789	8,003,368	6,818,853	8,641,916	4,249,510	2,150,796	1,363,374	3,361,642	7,628,030
Revenues from use of property	193,888	736,592	696,331	706,420	734,009	363,907	340,415	428,172	402,355	692,489
Charges for services	5,414,750	5,545,178	8,380,344	9,534,311	10,560,675	10,580,604	11,361,018	12,026,360	12,586,752	13,094,005
Miscellaneous local revenues	302,638	505,095	419,218	1,272,094	1,365,849	1,082,857	342,431	394,904	701,593	1,181,755
Recovered costs	2,327,699	2,303,736	3,865,889	4,043,245	3,713,818	4,851,799	4,412,312	4,087,899	3,522,595	3,039,786
Contributions	1,511,639	-	-	-	-	-	-	-	-	-
Unrealized gain on temporary investments	1,631,027	-	-	-	-	-	-	-	-	-
Program income	-	7,780	-	-	-	716,253	407,175	284,699	172,643	179,969
Revenues from local developers	835,555	503,971	660,513	570,665	651,519	899,776	636,732	1,011,455	1,737,131	2,360,155
Intergovernmental revenues:										
Commonwealth of Virginia	42,382,677	47,379,885	58,378,224	65,704,907	75,077,885	81,956,131	83,417,285	89,547,556	91,882,899	99,075,408
Federal government	11,981,242	10,259,951	16,936,459	13,353,705	12,205,666	13,735,228	15,930,534	29,013,323	17,469,444	19,257,416
Mosquito Control Commission	-	-	-	-	-	-	-	-	-	300,000
Chesapeake Public Schools	-	-	-	-	-	1,497,066	920,741	1,318,184	2,252,275	3,461,393
Other localities	-	-	-	-	20,000	-	-	-	-	-
Total revenues	\$ 297,050,891	309,074,089	338,837,210	351,016,173	367,163,761	383,697,755	406,569,194	450,807,002	476,351,808	531,231,425
EXPENDITURES										
Current:										
General government	\$ 51,400,785	57,689,859	65,776,798	69,593,718	73,731,655	79,542,562	79,234,484	105,434,018	96,583,251	99,715,504
Public safety	42,945,410	43,211,122	45,866,887	49,096,314	52,129,599	63,579,124	64,901,277	65,491,774	70,474,672	76,643,995
Public works	32,229,556	31,897,566	33,233,637	33,970,570	35,047,846	39,440,560	38,551,088	38,461,949	41,022,326	42,423,515
Parks	6,097,800	6,215,206	7,013,219	7,962,211	7,967,933	8,539,053	7,932,242	8,741,202	3,932,120	6,373,828
Public welfare	24,038,143	25,477,845	27,548,403	29,883,922	30,794,751	34,694,601	32,916,436	33,987,999	37,357,981	37,860,700
Education - Payments to Public Schools (1)	-	-	-	-	-	121,225,833	127,635,002	127,774,672	137,190,122	150,652,116
Benefit payments	329,939	-	-	-	-	-	-	-	-	-
Capital outlay	39,215,875	48,823,581	73,657,201	21,123,946	19,676,289	19,350,133	13,885,628	15,599,421	34,960,257	51,450,380
Debt service:										
Principal	12,175,129	14,127,658	15,276,591	13,590,131	21,530,560	24,435,865	22,935,196	25,577,280	26,854,851	29,135,993
Interest	21,161,466	23,781,800	23,085,361	23,271,407	23,784,635	23,074,156	22,431,441	21,393,424	19,760,635	19,369,437
Total expenditures	\$ 229,594,103	251,224,637	291,458,097	248,492,219	264,663,268	413,881,887	410,422,794	442,461,739	468,136,215	513,625,468
Excess (deficiency) of revenues over (under) expenditures	\$ 67,456,788	57,849,452	47,379,113	102,523,954	102,500,493	(30,184,132)	(3,853,600)	8,345,263	8,215,593	17,605,957

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Statement of Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years - Unaudited

Table 4, (Continued)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
OTHER FINANCING SOURCES (USES)										
Transfers from other funds	\$ 52,860,768	48,380,628	60,993,298	54,546,154	64,673,482	63,756,863	61,746,888	65,857,985	68,380,647	70,582,784
Proceeds from equipment capital leases	24,460,000	-	-	-	265,708	9,104,490	-	-	-	531,918
Transfers from component units	3,421,644	3,809,993	4,462,689	2,511,513	1,641,798	-	-	-	-	-
Proceeds from line of credit	1,595,521	375,830	227,971	-	-	-	-	4,940,000	-	-
Lease revenue bond issued	-	-	-	-	-	-	-	720,000	-	-
Section 108 loan funds	-	-	-	-	-	-	-	-	-	-
General obligation bonds issued	28,960,000	33,000,519	21,500,000	89,289	6,883,019	60,771,601	102,825,000	-	13,815,000	15,865,000
General obligation refunding bonds issued	-	-	-	-	-	-	-	62,920,000	-	-
Transfers to other funds	(53,193,685)	(48,877,822)	(63,037,533)	(51,522,171)	(66,709,904)	(64,551,515)	(61,580,997)	(66,899,055)	(68,917,222)	(70,584,457)
Transfer to component units	(116,245,369)	(102,440,419)	(98,729,336)	(103,676,514)	(113,126,514)	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-	(54,308,889)	(89,449,965)	(70,300,043)	(913,530)	-
Premiums on general obligation bonds issued	-	-	-	-	-	3,535,946	8,219,994	-	394,743	59,276
Premiums on refunding bonds issued	-	-	-	-	-	-	-	7,794,630	-	-
VPSA bond proceeds	-	-	-	-	-	-	-	-	19,275,000	26,935,000
Premiums on VPSA bonds	-	-	-	-	-	-	-	-	1,147,404	1,072,963
Total other financing sources (uses)	\$ (58,141,121)	(65,751,271)	(74,582,911)	(98,051,729)	(106,372,411)	18,308,496	21,760,920	5,033,517	33,182,042	44,462,484
Net change in fund balances	\$ 9,315,667	(7,901,819)	(27,203,798)	4,472,225	(3,871,918)	(11,875,636)	17,907,320	13,378,780	41,397,635	62,068,441
Debt service as a percentage of noncapital expenditures (2)	21.23%	23.05%	21.38%	19.35%	22.69%	13.69%	12.92%	12.36%	12.06%	11.73%

(1) The City began to report accrual information when GASB Statement 34 was implemented in fiscal year 2002

(2) Debt service as a percentage of noncapital expenditures is calculated as follows: (sum of general government expenditures + capital outlay expenditures + debt service payments) - capital outlay expenditures

CITY OF CHESAPEAKE, VIRGINIA

Table 5

Assessed and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years - Unaudited

Fiscal Year	Real Property		Personal Property		Total		Ratio of Total Assessed Value to Total Estimated Actual Value
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Direct Tax Rate (1)	Estimated Actual Value	
1997	\$ 8,563,808,409	8,563,808,409	943,699,805	943,699,805	1.53	\$ 9,507,508,214	100.00%
1998	9,040,735,075	9,040,735,075	993,216,197	993,216,197	1.53	10,033,951,272	100.00%
1999	9,457,465,403	9,457,465,403	1,102,588,406	1,102,588,406	1.55	10,560,053,809	100.00%
2000	10,013,133,847	10,013,133,847	1,238,515,865	1,238,515,865	1.56	11,251,649,712	100.00%
2001	10,544,713,562	10,544,713,562	1,301,853,895	1,301,853,895	1.56	11,846,567,457	100.00%
2002	11,262,033,169	11,262,033,169	1,327,827,157	1,327,827,157	1.55	12,589,860,326	100.00%
2003	12,119,195,740	12,119,195,740	1,374,652,783	1,374,652,783	1.54	13,493,848,523	100.00%
2004	13,248,747,216	13,248,747,216	1,426,488,475	1,426,488,475	1.54	14,675,235,691	100.00%
2005	14,713,238,641	14,713,238,641	1,583,230,288	1,583,230,288	1.53	16,296,468,929	100.00%
2006	17,451,186,558	17,451,186,558	1,685,278,225	1,685,278,225	1.46	19,136,464,783	100.00%

(1) The Direct Tax Rate is calculated using a formula that includes the City's actual tax rates of \$1.21 for real property and \$4.00 for personal property

Table 6

CITY OF CHESAPEAKE, VIRGINIA

Direct and Overlapping Property Tax Rates
 Last Ten Fiscal Years - Unaudited
 (rate per hundred)

Fiscal Year	REAL PROPERTY (1) (2)	PERSONAL PROPERTY (3) (4)											Total Direct Rate (9)		
		Motor Vehicles	Motor Vehicles Disabled Vets (6)	Motor Carriers	Recreation Vehicles	Handicap Vehicle (5) (6)	Boats (8)	Business	Mobile Homes (7)	Machinery & Tools	Farm	Airplanes			
1997	1.26	4.00	1.50	3.12	1.50	1.50	0.01	1.50	4.00	4.00	1.26	3.12	4.00	4.00	1.53
1998	1.26	4.00	1.50	3.12	1.50	1.50	1.50	4.00	4.00	1.26	3.12	4.00	4.00	0.50	1.53
1999	1.26	4.00	0.01	3.12	1.50	0.01	0.01	1.50	4.00	1.26	3.12	4.00	4.00	0.50	1.55
2000	1.26	4.00	0.01	3.12	1.50	0.01	0.01	1.50	4.00	1.26	3.12	4.00	4.00	0.50	1.56
2001	1.26	4.00	0.01	3.12	1.50	0.01	0.01	1.50	4.00	1.26	3.12	4.00	4.00	0.50	1.56
2002	1.26	4.00	0.01	3.12	1.50	0.01	0.01	1.50	4.00	1.26	3.12	4.00	4.00	0.50	1.55
2003	1.26	4.00	0.01	3.12	1.50	0.01	0.01	1.50	4.00	1.26	3.12	4.00	4.00	0.50	1.54
2004	1.26	4.00	0.01	3.12	1.50	0.01	0.01	1.50	4.00	1.26	3.12	4.00	4.00	0.50	1.54
2005	1.26	4.00	0.01	3.12	1.50	0.01	0.01	1.50	4.00	1.26	3.12	4.00	4.00	0.50	1.53
2006	1.21	4.00	0.01	3.12	1.50	0.01	0.01	0.01	4.00	1.21	3.12	4.00	4.00	0.50	1.46

- (1) Assessment for real property is 100 percent of fair market value.
- (2) The general City real estate tax levy is \$1.21 per \$100 of assessed value. An additional \$.02 per \$100 of assessed value is imposed for mosquito control services.
- (3) The general City personal property tax levy is \$4.00 per \$100 of assessed value. An additional \$.08 per \$100 of assessed value is imposed for mosquito control services.
- (4) Boats and vehicles are assessed using 100% of the loan value from a recognized pricing guide. Boats and vehicles that are not found in a recognized pricing guide are assessed as a percentage of their original cost. Airplanes, business personal property and machinery and tools are assessed at 20% of their original cost. Farm equipment is assessed at 12% of its original cost.
- (5) New category effective January 1998.
- (6) Tax rate on Disabled Veteran Motor Vehicle and Handicap Vehicle changed effective on January 1, 1999.
- (7) Mobile home assessments are based on per square foot values provided by a recognized pricing guide.
- (8) The general tax rate on boat assessments was reduced to \$.01 per \$100 on January 1, 2006.
- (9) The direct tax rate is calculated using a formula that includes the City's actual tax rates of \$1.21 for real property and \$4.00 for personal property.

CITY OF CHESAPEAKE, VIRGINIA

Table 7

Principal Property Taxpayers
Last Ten Fiscal Years - Unaudited

Principal Taxpayer	Type of Business	Fiscal Year 2006			Fiscal Year 2005			Fiscal Year 2004			Fiscal Year 2003		
		Real Property Assessed Value	Percent of Total Assessed Value	Real Property Assessed Value	Percent of Total Assessed Value	Real Property Assessed Value	Percent of Total Assessed Value	Real Property Assessed Value	Percent of Total Assessed Value	Real Property Assessed Value	Percent of Total Assessed Value	Real Property Assessed Value	Percent of Total Assessed Value
Dominion Virginia Power	Electric Utility	\$585,863,817	3.36%	\$585,382,845	3.98%	\$592,909,263	4.48%	\$447,062,401	3.69%				
Greenbrier Mall Partners LP	Shopping Mall & Vacant Land	100,745,600	0.58%	95,505,500	0.65%	79,498,400	0.60%	98,339,100	0.81%				
Chesapeake Mall LLC	Shopping Mall	81,482,800	0.47%	79,976,600	0.54%	79,296,100	0.60%	79,433,500	0.66%				
Empirian Chesapeake LLC	Apartment Complex	56,258,900	0.32%	-	-	-	-	-	-				
CP Venture Two LLC	Shopping Mall	49,737,400	0.29%	48,721,400	0.33%	36,287,500	0.27%	56,903,600	0.47%				
Woodlake Co Limited Partnership	Apartment Complex	48,751,300	0.28%	44,346,800	0.30%	35,858,000	0.27%	32,138,000	0.27%				
JLP Chesapeake LLC	Retail and Vacant Land	37,860,700	0.22%	36,566,400	0.25%	30,121,100	0.23%	36,079,900	0.30%				
Crossways Associates LLC	Office Bldgs & Shopping Center	32,382,300	0.19%	30,698,800	0.21%	48,426,200	0.37%	29,515,500	0.24%				
CPRE 1 Bay LLC	Apartment Complex	32,016,200	0.18%	28,129,600	0.19%	-	-	-	-				
Dollar Tree Distribution Inc	Distribution Center	27,545,000	0.16%	27,371,400	0.19%	26,131,000	0.20%	25,810,000	0.21%				
Cove Land LLC	Apartment Complex	-	-	36,850,000	0.25%	-	-	-	-				
Chesapeake Center Associates	Shopping Center	-	-	-	-	25,711,400	0.19%	18,440,000	0.15%				
Mitsubishi Kasei America Inc	Manufacturing	-	-	-	-	25,653,000	0.19%	24,847,700	0.21%				
Wal-Mart Stores Inc	Retail and Vacant Land	-	-	-	-	-	-	-	-				
Schroder Chesapeake Ltd. Partnership	Shopping Mall	-	-	-	-	-	-	-	-				
Chesapeake - JCP Associates	Shopping Mall	-	-	-	-	-	-	-	-				
Prudential Insurance Co of America	Office Buildings & Shopping Center	-	-	-	-	-	-	-	-				
Cousins Properties Inc	Shopping Center	-	-	-	-	-	-	-	-				
Norfolk & Western	Railway	-	-	-	-	-	-	-	-				
Total Top Ten Principal Taxpayers		\$1,052,644,017	6.05%	\$1,013,549,345	6.89%	\$979,891,963	7.40%	\$848,569,701	7.00%				
Total Assessed Valuation (1)		\$17,451,186,558		\$14,713,238,641		\$13,248,747,216		\$12,119,195,740					

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Table 7, (Continued)

Principal Property Taxpayers
Last Ten Fiscal Years - Unaudited

Principal Taxpayer	Type of Business	Fiscal Year 2002			Fiscal Year 2001			Fiscal Year 2000			Fiscal Year 1999		
		Real Property Assessed Value	Percent of Total Assessed Value	Real Property Assessed Value	Percent of Total Assessed Value	Real Property Assessed Value	Percent of Total Assessed Value	Real Property Assessed Value	Percent of Total Assessed Value	Real Property Assessed Value	Percent of Total Assessed Value	Real Property Assessed Value	Percent of Total Assessed Value
Dominion Virginia Power	Electric Utility	\$447,062,401	3.97%	\$474,450,339	4.50%	\$476,718,528	4.76%	\$481,785,549	5.09%				
Greenbrier Mall Partners LP	Shopping Mall & Vacant Land	98,676,300	0.88%	-	-	-	-	-	-				
Chesapeake Mall LLC	Shopping Mall	79,296,100	0.70%	79,345,500	0.75%	-	-	-	-				
Empirian Chesapeake LLC	Apartment Complex	-	-	-	-	-	-	-	-				
CP Venture Two LLC	Shopping Mall	56,903,600	0.51%	54,648,054	0.52%	54,292,500	0.54%	49,889,900	0.53%				
Woodlake Co Limited Partnership	Apartment Complex	32,138,000	0.29%	31,330,900	0.30%	30,954,800	0.31%	28,443,900	0.30%				
JLP Chesapeake LLC	Retail and Vacant Land	-	-	-	-	-	-	-	-				
Crossways Associates LLC	Office Bldgs & Shopping Center	29,515,500	0.26%	28,482,000	0.27%	-	-	-	-				
CPRE 1 Bay LLC	Apartment Complex	-	-	-	-	-	-	-	-				
Dollar Tree Distribution Inc	Distribution Center	24,847,700	0.22%	25,631,700	0.24%	25,450,900	0.25%	21,579,400	0.23%				
Cove Land LLC	Apartment Complex	-	-	-	-	-	-	-	-				
Chesapeake Center Associates	Shopping Center	18,391,500	0.16%	18,389,500	0.17%	18,009,400	0.18%	17,748,000	0.19%				
Mitsubishi Kasei America Inc	Manufacturing	25,810,000	0.23%	23,915,100	0.23%	23,759,500	0.24%	23,157,400	0.24%				
Wal-Mart Stores Inc	Retail and Vacant Land	26,888,000	0.24%	25,777,881	0.24%	29,605,000	0.30%	28,533,600	0.30%				
Schroder Chesapeake Ltd. Partnership	Shopping Mall	-	-	98,650,300	0.94%	94,976,600	0.95%	84,033,600	0.89%				
Chesapeake - JCP Associates	Shopping Mall	-	-	-	-	77,060,600	0.77%	65,885,400	0.70%				
Prudential Insurance Co of America	Office Buildings & Shopping Center	-	-	-	-	39,681,300	0.40%	64,067,300	0.68%				
Cousins Properties Inc	Shopping Center	-	-	-	-	-	-	-	-				
Norfolk & Western	Railway	-	-	-	-	-	-	-	-				
Total Top Ten Principal Taxpayers		\$839,529,101	7.45%	\$860,621,274	8.16%	\$870,509,128	8.70%	\$865,124,049	9.15%				
Total Assessed Valuation (1)		\$11,262,033,169		\$10,544,713,562		\$10,013,133,847		\$9,457,465,403					

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Table 7, (Continued)

Principal Property Taxpayers
Last Ten Fiscal Years - Unaudited

Principal Taxpayer	Type of Business	Fiscal Year 1998		Fiscal Year 1997	
		Real Property Assessed Value	Percent of Total Assessed Value	Real Property Assessed Value	Percent of Total Assessed Value
Dominion Virginia Power	Electric Utility	\$472,890,908	5.23%	\$471,344,168	5.50%
Greenbrier Mall Partners LP	Shopping Mall & Vacant Land	-	-	-	-
Chesapeake Mall LLC	Shopping Mall	-	-	-	-
Empirian Chesapeake LLC	Apartment Complex	-	-	-	-
CP Venture Two LLC	Shopping Mall	-	-	-	-
Woodlake Co Limited Partnership	Apartment Complex	27,666,200	0.31%	27,666,200	0.32%
JLP Chesapeake LLC	Retail and Vacant Land	-	-	-	-
Crossways Associates LLC	Office Bldgs & Shopping Center	-	-	-	-
CPRE 1 Bay LLC	Apartment Complex	-	-	-	-
Dollar Tree Distribution Inc	Distribution Center	23,867,600	0.26%	-	-
Cove Land LLC	Apartment Complex	-	-	-	-
Chesapeake Center Associates	Shopping Center	18,727,000	0.21%	18,099,300	0.21%
Mitsubishi Kasei America Inc	Manufacturing	22,425,200	0.25%	20,951,700	0.24%
Wal-Mart Stores Inc	Retail and Vacant Land	26,664,800	0.29%	22,873,600	0.27%
Schroder Chesapeake Ltd. Partnership	Shopping Mall	91,009,300	1.01%	89,758,400	1.05%
Chesapeake - JCP Associates	Shopping Mall	72,600,000	0.80%	72,600,000	0.85%
Prudential Insurance Co of America	Office Buildings & Shopping Center	59,304,200	0.66%	70,843,500	0.83%
Cousins Properties Inc	Shopping Center	46,116,400	0.51%	43,125,000	0.50%
Norfolk & Western	Railway	-	-	17,836,693	0.21%
Total Top Ten Principal Taxpayers		\$861,271,608	9.53%	\$855,098,561	9.98%
Total Assessed Valuation (1)		\$9,040,735,075		\$8,563,808,409	

(1) Total Assessed Valuation includes Public Service Corporation Property as of June 30th of each Fiscal Year

Table 8

CITY OF CHESAPEAKE, VIRGINIA

Property Tax Levies

Last Ten Fiscal Years - Unaudited

Fiscal Year	REAL PROPERTY (1)	PERSONAL PROPERTY (1)										
		Motor Vehicles	Motor Carriers	Recreation Vehicles	Disabled Vets (2)	Handicap Vehicle (3)	Boats (5)	Business	Mobile Homes	Machinery & Tools	Farm	Airplanes (4)
1997	\$ 100,945,109	28,531,639	92,784	117,867	-	-	214,394	5,260,656	153,509	2,458,195	101,244	27,868
1998	106,940,502	29,880,970	134,486	130,808	18,051	472	224,513	5,548,765	160,704	2,611,746	106,957	6,512
1999	112,035,175	32,892,975	142,579	158,765	-	-	248,641	6,184,227	165,371	3,037,398	104,216	16,650
2000	119,019,794	37,612,479	167,619	186,054	-	-	285,502	6,828,776	161,894	3,061,695	102,477	25,120
2001	125,644,567	39,419,716	202,508	197,218	-	-	300,746	7,513,072	166,544	3,175,035	98,063	17,334
2002	134,698,510	40,945,175	252,341	227,750	-	-	315,873	7,756,524	159,110	2,371,407	100,679	19,458
2003	145,107,682	42,472,194	298,298	259,567	-	-	332,763	7,948,489	172,051	2,399,467	104,042	15,919
2004	158,879,070	43,910,119	277,821	283,302	-	-	337,128	8,243,408	174,286	2,608,522	109,295	19,651
2005	177,090,767	49,151,769	394,098	335,302	-	-	374,285	8,789,092	184,361	2,699,724	111,666	31,450
2006	204,335,250	53,519,922	400,580	380,969	-	-	-	9,216,386	181,302	2,835,759	76,574	35,978

(1) Public service corporation property is not included.

(2) New category effective January 1, 1997. In January 1999 the tax rate was reduced to \$0.01.

(3) New category effective January 1, 1998. In January 1999 the tax rate was reduced to \$0.01.

(4) Beginning January 1, 1998, tax rate was reduced from \$4.00 per hundred to \$0.50 per hundred.

(5) Beginning January 1, 2006 the general tax rate on boat assessment was reduced to \$.01 per \$100.

CITY OF CHESAPEAKE, VIRGINIA

Property Tax Levies and Collections
Last Ten Fiscal Years - Unaudited

Table 9

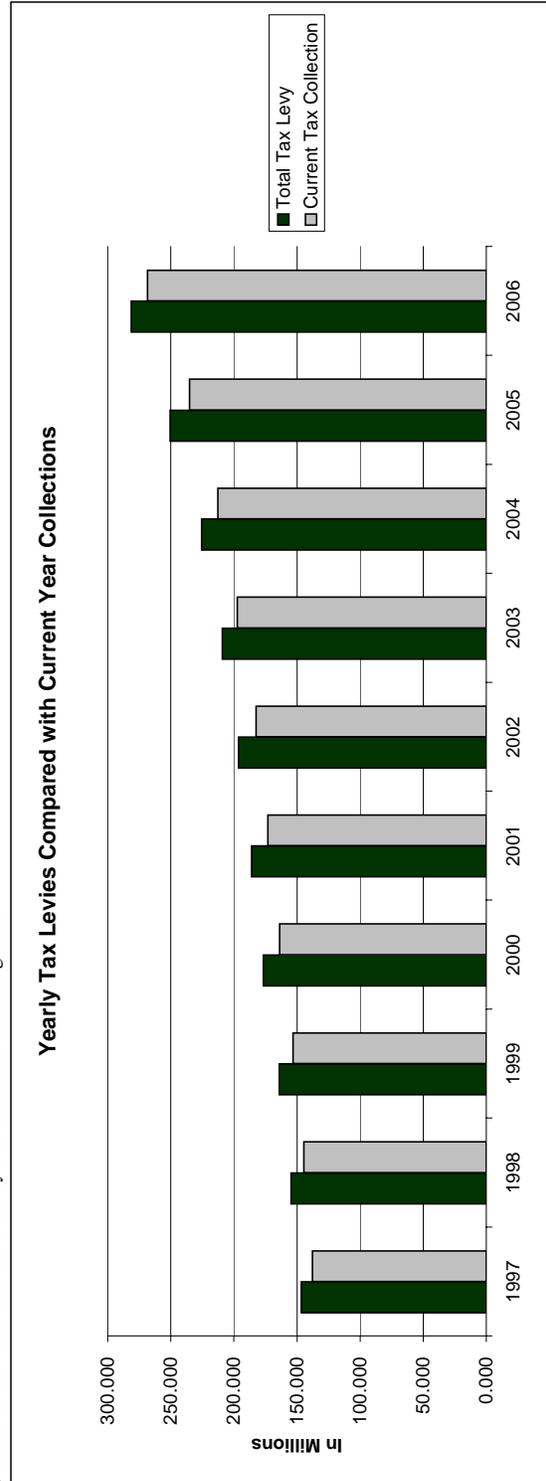
Fiscal Year	Total Tax Levy	Current Tax Collections (2) (3)	Percent of Levy Collected	Delinquent Tax Collections (2)	Total Tax Collections	Total Collections as a Percent of Total Tax Levy	Outstanding Delinquent Taxes (1)	Ratio of Delinquent Taxes to Total Tax Levy
1997	\$ 146,576,516	137,637,297	93.90%	\$ 12,271,155	149,908,452	102.27%	\$ 12,179,130	8.31%
1998	154,544,528	144,543,204	93.53%	12,165,237	156,708,441	101.40%	12,528,904	8.11%
1999	164,000,307	153,081,861	93.34%	13,659,994	166,741,855	101.67%	10,599,446	6.46%
2000	176,589,725	163,705,418	92.70%	15,244,557	178,949,975	101.34%	10,609,066	6.01%
2001	186,048,152	173,088,321	93.03%	15,504,949	188,593,270	101.37%	8,559,955	4.60%
2002	196,280,930	182,439,282	92.95%	16,894,630	199,333,912	101.56%	8,384,422	4.27%
2003	209,091,303	197,419,119	94.42%	16,737,939	214,157,058	102.42%	7,949,957	3.80%
2004	225,644,477	212,646,800	94.24%	18,331,933	230,978,733	102.36%	9,127,960	4.05%
2005	250,428,244	235,274,576	93.95%	19,255,212	254,529,788	101.64%	9,574,391	3.82%
2006	281,317,257	270,230,570 (4)	96.06%	16,996,163	287,226,733	102.10%	14,349,235	5.10%

(1) Tax receivables as of June 30 less allowance for uncollectible amounts.

(2) Effective 1999, collections include amount reimbursed by the State for Personal Property Tax under the Personal Property Tax Relief Act (PPTRA) of 1998.

(3) Includes tax collections recorded by Chesapeake Mosquito Control Commission, component unit.

(4) Includes tax collections recorded by Tax Increment Financing Fund.



CITY OF CHESAPEAKE, VIRGINIA

Table 10

Ratios of Outstanding Debt by Type
Last Ten Fiscal Years - Unaudited

Fiscal Year	Governmental Activities			Governmental Activities			Governmental Activities			Other Governmental Activities Debt			Notes Payable
	General Obligation Bonds	School Literary Loans	% of Actual Taxable Value of Property	Governmental Debt Per Capita (1)	Certificates of Participation	Section 108 Loans	Supplemental Payments Agreement	Capital Leases to Component Units	Capital Leases				
1997	\$ 389,043,407	6,133,445	4.61%	\$ 2,069	15,265,000	-	-	52,665,000	63,163	1,147,198			
1998	376,815,705	5,683,489	4.23%	1,974	13,875,000	2,950,000	31,625,000	50,865,000	-	1,104,193			
1999	392,694,070	9,224,269	4.25%	2,050	12,425,000	2,785,000	30,920,000	48,980,000	-	952,831			
2000	398,493,895	8,774,313	4.07%	2,033	10,905,000	2,610,000	30,180,000	47,010,000	-	722,799			
2001	385,511,930	8,124,820	3.73%	1,939	9,305,000	2,425,000	29,400,000	44,945,000	265,708	522,867			
2002	373,538,133	7,475,327	3.38%	1,855	7,630,000	2,225,000	28,580,000	42,780,000	14,360,942	2,011,526			
2003	375,081,773	6,825,834	3.15%	1,820	5,870,000	2,010,000	27,720,000	40,510,000	13,185,845	193,065			
2004	355,039,000	6,276,341	2.73%	1,682	4,015,000	2,500,000	26,820,000	38,125,000	14,165,348	121,849			
2005	363,966,570	5,726,848	2.51%	1,721	2,060,000	2,255,000	25,870,000	34,335,000	12,112,890	48,578			
2006	381,132,435	5,177,355	2.21%	1,769	-	1,995,000	24,205,000	31,750,000	12,170,380	-			

(1) Governmental activities per capita is calculated by [general obligation bonds + school literary loans] / population

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Table 10, (Continued)

Ratios of Outstanding Debt by Type
Last Ten Fiscal Years - Unaudited

Fiscal Year	Business-type Activities										All Debt Per Capita (2)
	General Obligation Bonds	Utility Notes Payable	Capital Leases	Revenue Bonds	Due to the Commonwealth of Virginia	Total Primary Government	Percentage of Personal Income				
1997	\$ 86,719,982	4,424,576	210,092	21,132,763	-	576,804,626	12.85%			\$ 3,019	
1998	85,678,742	6,230,614	-	20,806,658	-	595,634,401	12.61%			3,073	
1999	83,191,197	6,738,070	-	20,445,553	-	608,355,990	12.17%			3,103	
2000	81,111,624	5,076,127	1,112,644	41,276,066	43,280,590	670,553,058	12.46%			3,347	
2001	78,382,922	3,384,085	5,478,288	40,651,547	70,606,557	679,003,724	11.81%			3,345	
2002	76,426,363	3,449	-	40,280,000	71,281,187	666,591,927	10.91%			3,246	
2003	138,200,117	808,075	-	29,395,000	70,447,794	710,247,503	10.90%			3,385	
2004	133,117,323	690,000	-	29,120,000	69,964,516	679,954,377	9.74%			3,165	
2005	135,351,558	575,000	-	21,630,000	71,958,461	675,889,905	n/a			3,147	
2006	130,434,187	460,000	-	21,630,000	71,078,118	680,032,475	n/a			3,113	

(2) All Debt per capita is calculated by [sum of governmental activities + other governmental activities debt + business-type activities] / population
n/a - not available

CITY OF CHESAPEAKE, VIRGINIA

Table 11

Ratio of Net General Obligation Bonded Debt to
Assessed Value and Net General Obligation Bonded Debt Per Capita
Last Ten Fiscal Years - Unaudited

Fiscal Year	Population (1)	Assessed Value (2)	Gross Bonded Debt (3)	Less Debt Service Monies Available	Debt Payable from Enterprise Revenues (4)	Net Bonded Debt	Ratio of Net Bonded Debt To Assessed Value	Net Bonded Debt Per Capita (5)
1997	191,040	\$ 9,507,508,214	408,596,834	27,513,439	13,419,982	367,663,413	3.87%	\$ 1,925
1998	193,805	10,033,951,272	395,277,936	26,493,976	12,778,742	356,005,218	3.55%	1,837
1999	196,035	10,560,053,809	409,718,800	19,640,924	11,791,197	378,286,679	3.58%	1,930
2000	200,368	11,251,649,712	418,079,832	22,791,753	10,811,624	384,476,455	3.42%	1,919
2001	203,003	11,846,567,457	402,919,672	27,149,186	9,282,922	366,487,564	3.09%	1,805
2002	205,379	12,589,860,326	388,789,823	21,793,882	7,776,363	359,219,578	2.85%	1,749
2003	209,831	13,493,848,523	452,867,724	22,072,376	70,960,117	359,835,231	2.67%	1,715
2004	214,830	14,675,235,691	429,417,664	22,098,361	68,102,323	339,216,980	2.31%	1,579
2005	214,759	16,296,468,929	441,709,976	22,935,812	72,016,558	346,757,606	2.13%	1,615
2006	218,438	19,136,464,783	455,193,977	27,015,545	68,884,187	359,294,245	1.88%	1,645

(1) Population figures acquired from City of Chesapeake Planning Board estimates.

(2) From Table 5.

(3) Amount does not include revenue and double barrel bonds or long-term payables.

(4) These amounts include general obligation bonds that are being repaid from public utility revenues.

(5) Table 11 differs from Table 10 in that Table 10 is gross bonded debt and Table 11 is net bonded debt.

CITY OF CHESAPEAKE, VIRGINIA

Table 12

Ratio of Annual Debt Service Expenditures for General Obligation
 Bonded Debt to Total General Governmental Expenditures
 Last Ten Fiscal Years - Unaudited

Fiscal Year		Total General Governmental Expenditures (1)	Bonded Debt Expenditures (2)	Ratio of Debt Service to General Governmental Expenditures
1997	\$	400,355,471	33,336,595	8.33%
1998		424,102,152	34,636,758	8.17%
1999		462,654,754	36,034,112	7.79%
2000		482,055,117	34,534,255	7.16%
2001		515,764,180	42,984,842	8.33%
2002		552,004,523	44,428,354	8.05%
2003		573,498,079	41,536,122	7.24%
2004		621,319,617	43,143,614	6.94%
2005		657,971,769	42,781,735	6.50%
2006		689,369,774	43,929,646	6.37%

(1) This table includes the expenditures from the following funds: General, Special Revenue, Permanent, Chesapeake Mosquito Control Commission - component unit, Debt Service, and Chesapeake Public Schools - component unit. Excluded are Capital Projects - primary government, and Public Schools Capital Projects - component unit.

(2) Expenditures for general obligation bonds, excluding those reported in Enterprise Funds.

CITY OF CHESAPEAKE, VIRGINIA

Schedule of Utility General Obligation Bonds Coverage
Last Ten Fiscal Years - Unaudited

Table 13

Fiscal Year	Gross Revenue	Expenses (1)	Net Revenue Available for Debt Service	Debt Service Requirements		Coverage	
				Principal	Interest		
				Total (2)			
1997	\$ 27,956,441	16,174,539	11,781,902	1,028,841	4,832,259	5,861,100	2.01
1998	28,203,183	16,960,139	11,243,044	1,041,240	4,775,072	5,816,312	1.93
1999	30,202,591	18,585,124	11,617,467	2,487,545	4,667,984	7,155,529	1.62
2000	28,703,068	20,353,662	8,349,406	2,079,573	4,520,782	6,600,355	1.26
2001	28,943,690	21,334,342	7,609,348	2,728,702	4,379,421	7,108,123	1.07
2002	34,631,414	23,156,628	11,474,786	2,776,559	4,127,684	6,904,243	1.66
2003	34,453,540	23,536,100	10,917,440	2,911,246	3,918,004	6,829,250	1.60
2004	39,898,644	23,697,902	16,200,742	4,372,794	6,512,557	10,885,351	1.49
2005	39,725,069	25,652,449	14,072,620	4,685,766	6,099,103	10,784,869	1.30
2006	42,572,239	27,263,177	15,309,062	4,917,371	6,046,225	10,963,596	1.40

(1) Exclusive of depreciation and bond interest.

(2) Requirements do not include amounts relating to public utility revenue bonds and parity double barrel bonds.

CITY OF CHESAPEAKE, VIRGINIA

Table 14

Ratio of Bonded Debt Expenditures to Local Revenues
Last Ten Fiscal Years - Unaudited

Fiscal Year	Local Revenues (1)	Bonded Debt Expenditures (2)	Ratio of Bonded Debt Expenditures To Local Revenues
1997	\$ 276,534,410	42,145,638	15.24%
1998	286,971,762	42,965,993	14.97%
1999	295,167,583	44,989,222	15.24%
2000	310,600,678	43,064,772	13.86%
2001	321,649,673	53,077,434	16.50%
2002	335,931,888	55,228,050	16.44%
2003	357,571,178	52,409,607	14.66%
2004	388,086,776	56,876,709	14.66%
2005	422,035,831	56,134,812	13.30%
2006	469,471,620	57,006,066	12.14%

(1) Includes local revenues of the following funds: General, Special Revenue, Permanent, Debt Service, Chesapeake Public Schools - component unit, Chesapeake Mosquito Control Commission - component unit, Public Utilities Fund, and Chesapeake Expressway Fund. Prior to 2002 Permanent Funds were not included. Excluded are Capital Projects - primary government, Chesapeake Public Schools Capital Projects - component unit, and transfers/expenditures/revenues between the City and Chesapeake Public Schools.

(2) Includes bonded debt expenditures payable from public utility and toll road revenues.

CITY OF CHESAPEAKE, VIRGINIA

Table 15

Computation of Direct and Overlapping Bonded Debt

General Obligation Bonds

June 30, 2006 - Unaudited

Jurisdiction	Net General Obligation Bonded Debt Outstanding	Percentage Applicable To Government	Amount Applicable To Government
Direct:			
City of Chesapeake	\$ 386,309,790 (1)	100.00%	\$ 386,309,790
Overlapping:			
None	-		-
TOTAL	\$ 386,309,790		\$ 386,309,790

(1) Excluding general obligation bonds reported in the enterprise funds.

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt Limit	856,380,841	904,073,508	945,746,540	1,001,313,385	1,054,471,356	1,126,203,317	1,211,919,574	1,324,874,722	1,471,323,864	1,745,118,656
Total net debt applicable to limit	386,655,169	378,495,960	403,667,612	402,518,079	380,631,488	369,487,941	431,796,488	408,131,152	419,397,742	428,638,432
Legal debt margin	469,725,672	525,577,548	542,078,928	598,795,306	673,839,868	756,715,376	780,123,086	916,743,570	1,051,926,122	1,316,480,224
Total net debt applicable to the limit as a percentage of debt limit	45.1%	41.9%	42.7%	40.2%	36.1%	32.8%	35.6%	30.8%	28.5%	24.6%

CITY OF CHESAPEAKE, VIRGINIA

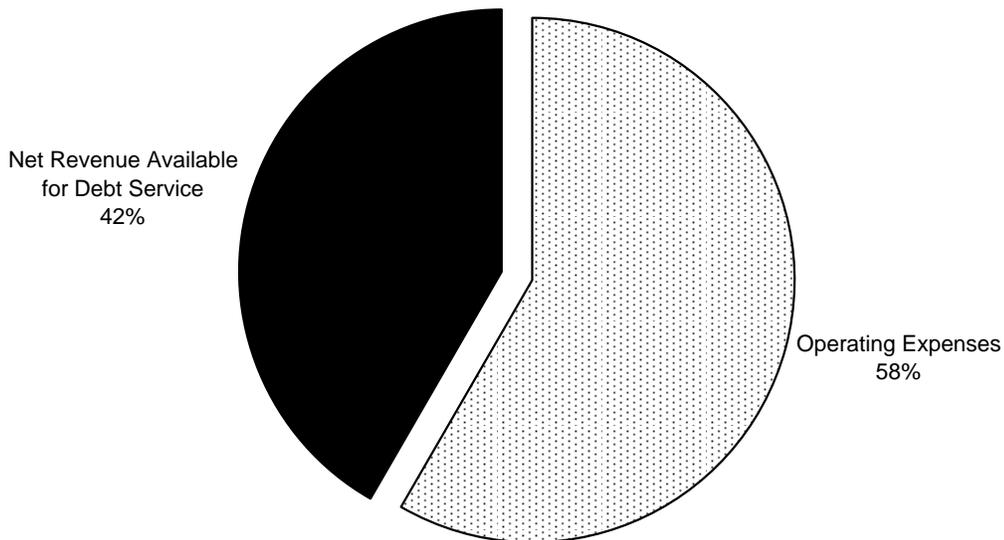
Table 17

Revenue and Existing Double Barrel Parity Bond Coverage
 Water and Sewer Systems (Pledged-Revenue)
 Last Ten Fiscal Years - Unaudited

Fiscal Year	Gross Revenue (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	DEBT SERVICE REQUIREMENTS (3)			Coverage (4)
				Principal	Interest	Total	
1997	\$ 25,926,744	16,174,539	9,752,205	719,865	2,217,694	2,937,559	3.32
1998	26,184,412	16,960,139	9,224,273	1,223,654	1,283,653	2,507,307	3.68
1999	27,783,516	18,585,124	9,198,392	570,000	1,226,619	1,796,619	5.12
2000	26,836,455	20,353,662	6,482,793	600,000	1,192,698	1,792,698	3.62
2001	27,415,623	21,334,342	6,081,281	635,000	1,162,161	1,797,161	3.38
2002	32,748,966	23,156,628	9,592,338	665,000	1,127,270	1,792,270	5.35
2003	32,372,879	23,536,100	8,836,779	700,000	1,090,046	1,790,046	4.94
2004	37,595,984	23,697,902	13,898,082	275,000	392,674	667,674	20.82
2005	37,354,500	25,652,449	11,702,051	193,333	190,895	384,228	30.46
2006	43,665,906	27,263,177	16,402,729	-	-	-	n/a

- (1) Total revenues exclusive of interest and less fifty percent (50%) of connection fees.
- (2) Total operating expenses exclusive of depreciation.
- (3) Includes principal and interest of revenue and existing parity double barrel bonds only. It does not include the general obligation bonds that are not parity double barrel or other subordinate debt. In 1995 all double barrel parity bonds were fully redeemed.
- (4) As of June 30, 2005 all revenue bonds for Public Utilities have been refunded as general obligation bonds, however, the expectation is for the Public Utility revenues to cover the debt service payments. It is anticipated that future Public Utility issuances will be revenue bonds.

For Year Ended June 30, 2006



CITY OF CHESAPEAKE, VIRGINIA

Table 18

Demographic and Economic Statistics
Last Ten Fiscal Years - Unaudited

Fiscal Year	Population (1)	Personal Income (2)	Per Capita Income (3)	School Enrollment (4)	Chesapeake Unemployment Rate (5)	Virginia Unemployment Rate (5)
1997	191,040	\$4,488,034	\$23,493	35,070	3.9%	3.9%
1998	193,805	4,723,605	24,373	35,877	3.0%	3.1%
1999	196,035	5,000,039	25,506	36,242	2.5%	2.7%
2000	200,368	5,379,533	26,848	36,920	2.5%	2.5%
2001	203,003	5,749,389	28,322	37,264	2.4%	2.5%
2002	205,379	6,107,527	29,738	38,010	3.5%	4.0%
2003	209,831	6,515,067	31,049	38,862	3.7%	4.1%
2004	214,830	6,983,552	32,507	39,440	3.7%	3.9%
2005	214,759	n/a	n/a	40,005	3.6%	3.6%
2006	218,438	n/a	n/a	40,121	3.2%	3.2%

n/a - Information not yet available

Sources:

- (1) Bureau of Economic Analysis an agency of the U.S. Department of Commerce (1997 - 2004) and City of Chesapeake Planning Department (2005 & 2006)
- (2) Bureau of Economic Analysis an agency of the U.S. Department of Commerce
- (3) Bureau of Economic Analysis an agency of the U.S. Department of Commerce
- (4) Chesapeake Public Schools (restated as of June 30, 2006)
- (5) U. S. Department of Labor Bureau of Labor Statistics (average for fiscal year)

CITY OF CHESAPEAKE, VIRGINIA

Table 19

Principal Employers
Last Ten Fiscal Years - Unaudited

Principal Employers	Type of Business	Fiscal Year 2006		Fiscal Year 2005		Fiscal Year 2004		Fiscal Year 2003	
		Employees	Percent of Total City Employment						
City of Chesapeake Public Schools (1)	Government	5,083	n/a	5,012	n/a	4,961	4.29%	4,894	4.40%
City of Chesapeake (2)	Government	3,170	n/a	3,128	n/a	3,085	2.67%	3,090	2.78%
Chesapeake General Hospital	Hospital & healthcare services	n/a	n/a	2,400	n/a	2,400	2.07%	2,400	2.16%
QVC Chesapeake Inc	Phone center/order processing facility	n/a	n/a	1,276	n/a	1,276	1.10%	1,276	1.15%
HSBC - Household International	Regional processing center for financial services	n/a	n/a	1,215	n/a	1,215	1.05%	1,215	1.09%
LTD Management Co LLC Marketing	Hotel development and management	n/a	n/a	1,000	n/a	-	0.00%	-	0.00%
LTD Management LLC	Hotel development and management	n/a	n/a	810	n/a	810	0.70%	590	0.53%
Cox Communications	Hampton Roads head quarters/customer care center	n/a	n/a	800	n/a	800	0.69%	500	0.45%
EDS	National employee benefits administration service center	n/a	n/a	800	n/a	-	0.00%	-	0.00%
Reliance Staffing Services	Employment supply service	n/a	n/a	700	n/a	600	0.52%	600	0.54%
Lifetouch National School Studios Inc	School photography processing plant	n/a	n/a	665	n/a	665	0.57%	665	0.60%
ICT Groups	Technical support center	n/a	n/a	500	n/a	940	0.81%	-	0.00%
Tower Perrin Administration Solutions	National employee benefits administration service center	n/a	n/a	-	n/a	800	0.69%	600	0.54%
MCI	Telecommunications network operator center	n/a	n/a	-	n/a	-	0.00%	1,100	0.99%
Total Employment (3)		8,253		18,306		17,552	15.17%	16,930	15.23%

n/a - not available

Source:

- (1) Chesapeake Public Schools Comprehensive Annual Financial Reports
- (2) City of Chesapeake Comprehensive Annual Financial Reports
- provided by City of Chesapeake Economic Development Department
- (3) Bureau of Economic Analysis an agency of the U.S. Department of Commerce

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Table 19, (Continued)

Principal Employers
Last Ten Fiscal Years - Unaudited

Principal Employers	Type of Business	Fiscal Year 2002		Fiscal Year 2001		Fiscal Year 2000		Fiscal Year 1999	
		Employees	Percent of Total City Employment						
City of Chesapeake Public Schools (1)	Government	4,782	4.44%	4,656	4.30%	4,794	4.69%	4,060	4.06%
City of Chesapeake (2)	Government	3,139	2.91%	3,048	2.81%	2,893	2.83%	2,799	2.80%
Chesapeake General Hospital	Hospital & healthcare services	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
QVC Chesapeake Inc	Phone center/order processing facility	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
HSBC - Household International	Regional processing center for financial services	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
LTD Management Co LLC Marketing	Hotel development and management	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
LTD Management LLC	Hotel development and management	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Cox Communications	Hampton Roads head quarters/customer care center	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EDS	National employee benefits administration service center	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Reliance Staffing Services	Employment supply service	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lifetouch National School Studios Inc	School photography processing plant	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ICT Groups	Technical support center	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Tower Perrin Administration Solutions	National employee benefits administration service center	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
MCI	Telecommunications network operator center	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total Employment (3)		7,921	7.36%	7,704	7.11%	7,687	7.52%	6,859	6.86%

107,692 108,357 102,182 100,054

n/a - not available

Source:

- (1) Chesapeake Public Schools Comprehensive Annual Financial Reports
- (2) City of Chesapeake Comprehensive Annual Financial Reports
- provided by City of Chesapeake Economic Development Department
- (3) Bureau of Economic Analysis an agency of the U.S. Department of Commerce

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Table 19, (Continued)

Principal Employers
Last Ten Fiscal Years - Unaudited

Principal Employers	Type of Business	Fiscal Year 1998		Fiscal Year 1997	
		Employees	Percent of Total City Employment	Employees	Percent of Total City Employment
City of Chesapeake Public Schools (1)	Government	3,941	4.12%	3,808	4.09%
City of Chesapeake (2)	Government	2,803	2.93%	2,685	2.88%
Chesapeake General Hospital	Hospital & healthcare services	n/a	n/a	n/a	N/A
QVC Chesapeake Inc	Phone center/order processing facility	n/a	n/a	n/a	N/A
HSBC - Household International	Regional processing center for financial services	n/a	n/a	n/a	N/A
LTD Management Co LLC Marketing	Hotel development and management	n/a	n/a	n/a	N/A
LTD Management LLC	Hotel development and management	n/a	n/a	n/a	N/A
Cox Communications	Hampton Roads head quarters/customer care center	n/a	n/a	n/a	N/A
EDS	National employee benefits administration service center	n/a	n/a	n/a	N/A
Reliance Staffing Services	Employment supply service	n/a	n/a	n/a	N/A
Lifetouch National School Studios Inc	School photography processing plant	n/a	n/a	n/a	N/A
ICT Groups	Technical support center	n/a	n/a	n/a	N/A
Tower Perrin Administration Solutions	National employee benefits administration service center	n/a	n/a	n/a	N/A
MCI	Telecommunications network operator center	n/a	n/a	n/a	N/A
Total Employment (3)		6,744	7.04%	6,493	6.98%

Total Employment (3) 95,739 93,068

n/a - not available

Source:

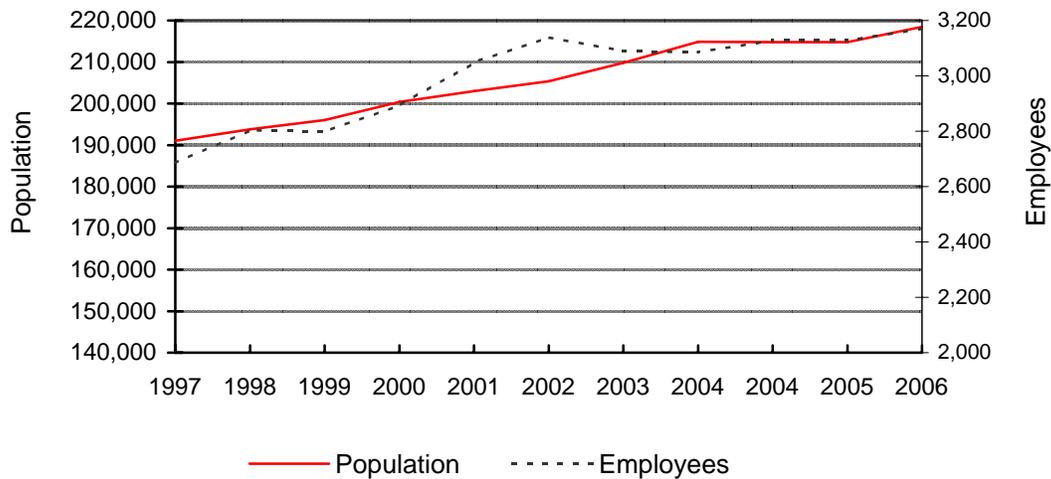
- (1) Chesapeake Public Schools Comprehensive Annual Financial Reports
- (2) City of Chesapeake Comprehensive Annual Financial Reports
- provided by City of Chesapeake Economic Development Department
- (3) Bureau of Economic Analysis an agency of the U.S. Department of Commerce

Municipal Employment Statistics
Last Ten Fiscal Years - Unaudited

Fiscal Year	Population (1)	Total Employees	Employees Per 1,000 Population
1997	191,040	2,685	14.1
1998	193,805	2,803	14.5
1999	196,035	2,799	14.3
2000	200,368	2,893	14.4
2001	203,003	3,048	15.0
2002	205,379	3,139	15.3
2003	209,831	3,090	14.7
2004	214,830	3,085	14.4
2005	214,759	3,128	14.6
2006	218,438	3,170	14.5

Sources: (1) Bureau of Economic Analysis an agency of the U.S. Department of Commerce (1997 - 2004) and City of Chesapeake Planning Department (2005 & 2006)

Population and Employee Figures



CITY OF CHESAPEAKE, VIRGINIA

Table 21

Full-Time Equivalent City Government Employees by Function/Program
Last Ten Fiscal Years - Unaudited

<u>Function/Program</u>	<u>Full-Time Equivalent Employees as of June 30</u>									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Government										40
Management Services										71
Economic Development										24
Finance										54
Information Technology										17
Human Resources										7
Budget										8
Agriculture										7
Intergovernmental Affairs										244
Other										507
Police										346
Sheriff										418
Fire										158
Community Services										57
Neighborhood Services										425
Public Works										77
Parks and Recreation										80
Library										195
Public Utilities										66
General Services										53
Justice										316
Health and Human Services										
Total	2,685	2,803	2,799	2,893	3,048	3,139	3,090	3,085	3,128	3,170

Source: Human Resources and prior year CAFRs

Note: Information not available by Function/Program for 1997-2005

CITY OF CHESAPEAKE, VIRGINIA
 Operating Indicators by Function/Program
 Last Ten Fiscal Years - Unaudited

Table 22

Function/Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Government										
Building Permits Issued	7,763	8,761	7,496	7,177	6,654	6,704	6,321	6,519	6,769	6,481
Building Inspections Conducted	17,591	16,222	18,225	16,067	13,901	16,624	15,616	14,864	16,432	14,600
Electrical Permits Issued	4,612	4,415	4,679	4,552	3,700	3,960	4,093	4,483	4,996	4,775
Electrical Inspections Performed	13,981	12,806	13,330	13,130	10,278	11,751	10,688	11,520	13,462	12,260
Plumbing Permits Issued	3,056	2,391	2,503	2,296	1,751	1,823	1,913	1,925	2,420	2,280
Plumbing Inspections Performed	11,993	9,910	12,085	11,159	18,238	9,872	8,912	10,946	10,952	9,724
Mechanical/Gas Permits Issued	8,550	7,156	7,842	6,978	5,291	5,529	6,101	6,120	6,878	6,163
Mechanical/Gas Inspections Performed	19,413	15,722	16,477	15,752	12,478	12,481	14,020	14,305	17,981	18,447
Code Compliance Inspections	14,676	13,497	13,155	13,695	15,284	15,317	15,992	13,339	14,013	20,270
Police										
Calls for Police Service	n/a	133,890	138,936	145,833	147,999	155,059	156,002	151,753	135,054	131,669
Part I Law Violations	n/a	n/a	n/a	7,480	7,821	9,239	10,125	8,432	9,236	9,183
Adult Criminal Charges	n/a	n/a	n/a	14,372	13,847	15,227	14,879	14,829	12,890	10,248
Total Criminal Arrests	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	9,229
Total Traffic Charges (moving/ non-moving/excludes DUI)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	63,609
DUI Arrests	989	745	797	882	841	728	823	948	1,243	1,159
Fire										
Calls answered for Fire Protection Services	18,056	18,006	19,108	21,187	21,333	22,875	22,421	23,416	23,460	23,911
Public Works										
Refuse Collected (tons per day)	94,686	94,635	98,290	102,469	101,208	106,448	108,046	115,592	114,605	118,899
Street Resurfacing (miles)	133.80	74.50	74.60	55.70	66.73	92.67	67.69	56.57	47.58	44.99
Potholes Repaired	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5,200
Water										
Service Connections	53,156	54,519	55,864	54,463	55,194	56,176	57,210	58,187	59,008	59,880
Daily Average Consumption in Gallons (in mgd)	13.84	14.09	14.42	14.81	15.10	15.00	15.00	15.00	16.00	16.53
Daily Average Water Provided (in mgd)	8.67	8.25	8.84	8.79	9.51	10.00	9.00	9.00	10.00	10.50
Wastewater										
Service Connections	51,744	53,315	54,602	53,429	54,223	54,297	55,361	56,340	57,160	58,046
Parks and Recreation										
Youth Athletics - Participants	16,198	16,477	11,187	10,868	11,091	10,845	10,036	9,414	9,003	8,414
Youth Athletics - Teams	1,229	1,237	836	799	812	799	772	715	695	648
Youth Athletics - Coaches	3,059	2,994	1,677	1,549	1,666	1,675	1,481	1,345	1,353	1,359
Adult Athletics - Participants	5,379	5,250	4,824	4,576	4,904	4,554	3,890	3,544	4,180	4,445
Adult Athletics - Teams	306	297	275	260	276	256	219	199	236	235
Special Programs Athletics - Participants	n/a	n/a	n/a	597	662	621	491	510	1,065	818
Special Programs Athletics - Programs	n/a	n/a	n/a	10	11	10	11	10	11	9
Leisure Classes - Youth Participants	n/a	n/a	n/a	n/a	2,668	2,224	1,915	2,174	2,104	2,073
Leisure Classes - Adult Participants	n/a	n/a	n/a	n/a	1,310	1,432	1,085	1,246	1,258	779
Leisure Classes - Community Program Participants	n/a	n/a	n/a	n/a	1,298	34,005	33,560	44,151	47,268	42,623
Leisure Classes - Special Event Attendance	n/a	n/a	n/a	n/a	27,850	32,850	28,250	29,200	34,900	34,250
Community Center Attendance	146,581	155,965	162,537	152,552	163,939	154,995	164,818	n/a	173,191	199,587
Community Center ID Sales	8,703	8,275	8,028	7,575	8,575	7,937	8,582	n/a	10,147	8,974
Community Center Rentals	1,580	1,740	1,971	2,098	2,116	2,192	1,848	n/a	1,607	1,769

(Continued)

CITY OF CHESAPEAKE, VIRGINIA
 Operating Indicators by Function/Program
 Last Ten Fiscal Years - Unaudited

Table 22 (Continued)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Library										
Items Checked Out	2,095,186	2,054,445	1,577,862	1,533,411	1,615,250	1,721,960	1,623,957	1,781,996	1,890,069	1,956,559
Inerlibrary Loans - Borrowed	703	520	687	798	826	797	871	906	910	1,072
Inerlibrary Loans - Loans	3,930	3,130	2,644	2,925	3,003	2,654	2,380	2,452	2,591	2,696
Library Collection	629,368	617,107	646,751	669,073	684,188	664,330	637,065	646,189	678,422	677,933
Patron Visits	1,321,677	1,293,198	1,171,122	1,103,002	1,126,717	1,162,439	1,160,061	1,125,096	1,349,598	1,589,297
Website Visits	n/a	n/a	n/a	26,187	291,000	321,000	353,100	n/a	520,208	692,305
Registered Patrons	103,334	108,844	127,227	142,943	160,030	179,421	195,481	163,089	182,623	188,999
Total Programming	1,952	1,725	1,734	1,502	1,875	2,154	2,446	2,316	2,418	2,417
Total Programming - Participants	55,959	50,623	43,438	48,311	57,864	65,645	71,745	67,858	73,708	70,343
Typewriter Use	4,798	4,195	3,621	2,497	2,848	1,864	1,592	1,443	925	774
Public Computer Use	34,165	55,855	74,586	95,963	126,136	172,727	191,387	222,471	407,157	517,870
Bookmobile - Patrons	13,069	11,589	13,051	11,560	12,656	12,293	13,093	15,514	14,597	12,761
Bookmobile - Number of Stops	n/a	1,157	1,237	1,097	1,182	1,323	1,312	1,453	1,380	1,201
Bookmobile - Miles Driven	n/a	6,299	6,362	5,488	5,900	6,520	6,609	7,266	7,078	6,364
Schools										
Student Enrollment	35,070	35,877	36,242	36,920	37,264	38,010	38,862	39,440	40,005	40,121

Source: Various City Departments
 n/a - Information not available

CITY OF CHESAPEAKE, VIRGINIA

Capital Asset Statistics by Function/Program
Last Ten Fiscal Years - Unaudited

Table 23

Function/Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Police										
Stations	5	4	4	4	5	5	5	5	5	5
Patrol Units	276	283	302	296	303	301	214	231	208	194
Fire Stations	14	14	14	14	15	15	15	15	15	15
Public Works										
Refuse Collection										
Collection Trucks	n/a	n/a	n/a	n/a	58	58	58	58	58	58
Other Public Works										
Storm Sewers (miles)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1,100
Streets (miles)	1,912	1,957	2,014	2,046	2,106	2,150	2,185	2,222	2,257	2,310
Streetlights	18,549	19,385	19,615	20,078	20,839	22,423	21,446	21,266	21,745	22,023
Parks and Recreation										
Park Acreage	1,771	1,858	2,013	2,084	2,067	1,992	2,042	2,042	2,043	2,066
Parks and Play Areas	43	51	55	62	68	63	65	65	67	64
Athletic Fields/Tennis Courts	136	145	145	196	211	211	211	211	211	211
Community Centers	7	7	7	7	7	7	7	7	7	7
Specialized Centers	4	4	4	4	4	4	4	4	4	4
Water										
Water Mains (miles)	700.71	714.82	725.74	734.81	742.27	749.00	761.00	772.00	786.00	795.00
Fire Hydrants	3,943	4,032	4,100	4,165	4,221	4,268	4,358	4,432	4,522	4,608
Wastewater										
Sanitary Sewers (miles)	879.51	902.58	918.49	928.55	938.41	950.00	968.00	982.00	1,003.00	1,018.66
Sewage Pumping Stations	230	234	236	238	240	243	248	248	253	255
Schools										
Elementary Schools	27	27	28	28	28	28	28	28	28	28
Secondary Schools	13	14	14	14	15	16	16	16	16	16
Educational Centers	3	3	3	3	3	3	3	3	3	3

Source: Various City Departments
n/a - Information not available

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COMPLIANCE SECTION



CITY OF CHESAPEAKE, VIRGINIA

Schedule U-1

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalogue Number	Expenditures
Department of Agriculture:		
Direct payments:		
National School Breakfast and Lunch Programs		
Fiscal year 2005	10.553	\$ 53,672
Fiscal year 2006	10.553	117,853
Pass-through payments:		
Virginia Department of Social Services:		
State Administrative Matching Grants for Food Stamp Program	10.561	1,532,463
Virginia Department of Education:		
School Breakfast Program	10.553	1,022,694
National School Lunch Program	10.555	3,541,813
Virginia Department of Agriculture and Consumer Services:		
Food Distribution - commodities value - Schools' Food Services	10.555	753,118
Food Distribution - commodities value - Detention Home	10.555	6,678
Food Distribution - commodities value - Parks and Recreation Summer Feeding Program	10.559	11,657
		7,039,948
Department of Housing and Urban Development:		
Direct payments:		
Community Development Block Grant Program:		
Program year 1998	14.218	11,851
Program year 1999	14.218	3,118
Program year 2000	14.218	(3,325)
Program year 2003	14.218	12,196
Program year 2004	14.218	46,181
Program Year 2005	14.218	140,158
Program Year 2006	14.218	874,250
Section 108 Loan Program	14.248	384,038
HOME Investment Partnerships Program	14.239	645,305
Brownfields Economic Development Initiative	14.246	105,325
		2,219,097
Department of Health and Human Services:		
Direct payments:		
Medical Reserve Corp		
Fiscal year 2005	93.008	26,799
Fiscal year 2006	93.008	24,625
Pass-through payments:		
Department of Mental Health, Mental Retardation and Substance Abuse:		
Block Grants for Community Mental Health Services	93.958	151,919
Block Grants for Prevention and Treatment of Substance Abuse	93.959	875,695
Virginia Department of Social Services:		
Promoting Safe and Stable Families	93.556	98,257
Temporary Assistance for Needy Families	93.558	1,277,542
Refugee and Entrant Assistance - State Administered Program	93.566	1,082
Low Income Home Energy Assistance	93.568	62,770
Payments to States for Child Care Assistance	93.575	963,096
Child Care & Development Fund	93.596	1,643,381
Foster Care-Title IV-E	93.658	1,496,233
Adoption Assistance	93.659	297,098
Social Services Block Grant	93.667	942,420
Independent Living	93.674	10,472
State Children Insurance Program	93.767	840
Medical Assistance Program (Medicaid: Title XIX)	93.778	969,381
Virginia Department of Education		
Medical Assistance Program (Medicaid: Title XIX)	93.778	87,095
Virginia Division of Child Support Enforcement:		
Child Support Dead File	93.564	120,835
		\$ 9,049,540

(Continued)

CITY OF CHESAPEAKE, VIRGINIA
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2006

Schedule U-1, Continued

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalogue Number	Expenditures
Department of the Interior:		
Direct payments:		
U.S. Fish and Wildlife Service - Refuge Revenue Sharing Act	15.226	\$ 51,317
		51,317
Department of Justice:		
Direct payments:		
Drug Control and System Improvement - Forfeited Asset Sharing Program - Drug Enforcement	16.579	35,118
Criminal Alien Assistance Program	16.606	24,103
Local Law Enforcement Block Grant	16.592	29,110
Office of Community Oriented Policing Services - Public Safety - Partnership and Community Policing Grants		
Fiscal year 2004	16.710	149,691
Fiscal years 2005 - 2006	16.710	98,610
Pass-through payments:		
Virginia Department of Emergency Management:		
Equipment Grant Program	16.007	24,145
Environmental Protection Agency:		
Chesapeake Bay Program	66.466	2,685
Bureau of Justice Assistance:		
Juvenile Account Incentive Block Grant		
Fiscal year 2005	16.523	40,959
Fiscal year 2006	16.523	35,712
Victim Witness Assistance Grant Program		
Fiscal year 2006	16.575	263,903
Edward Byrne Grant Program		
Fiscal year 2005	16.579	153,168
Fiscal year 2006	16.579	27,504
		884,708
U.S. Department of Transportation:		
Pass-through payments:		
Department of Motor Vehicles - Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants		
Fiscal year 2005	20.600	2,427
Fiscal year 2006	20.600	10,315
Virginia Department of Transportation:		
The Great Dismal Swamp Corridor Master Plan		
Federal Highway Administration - Planning and Construction	20.205	526
Route 104 Steel Bridge	20.205	376,217
Gum Road Multi Use Path	20.205	12,558
Portsmouth Blvd Phase IV	20.205	126,389
Greenbrier Pkwy Interchange	20.205	13,144
Poindexter Site Improvements	20.205	15,113
Military Accel @ Bainbridge	20.205	6,977
Military @ Smith Ave	20.205	67,856
Signal System Upgrade	20.205	547,208
Virginia Department of Emergency Management:		
Hazardous Materials Emergency Preparedness	20.703	7,634
Hazard Mitigation Program	18.580	98,092
		\$ 1,284,456

(Continued)

CITY OF CHESAPEAKE, VIRGINIA
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2006

Schedule U-1, Continued

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalogue Number	Expenditures
Department of Defense:		
Pass-through payments:		
Department of Education		
Payments to States in Lieu of Real Estate Taxes	12.112	\$ 2,346
		2,346
Department of Education:		
Direct payments:		
Impact Aid	84.041	2,942,579
Pass-through payments:		
Virginia Department of Education:		
Adult Education - State Grant Program	84.002	257,015
Title I, Part D - Program for Neglected & Delinquent Children	84.013	64,167
Title I Grants to Local Educational Agencies	84.010	4,600,550
Title V, Part A - State Grants for Innovative Programs	84.298	135,078
Special Education - Grants to States	84.027	7,942,144
Special Education - Preschool Grants	84.173	326,347
Title II, Part A - Improving Teacher Quality State Grants	84.367	1,459,765
Vocational Education - Basic Grants to States	84.048	577,430
Grants for State Assessments & Related Activities	84.369	17,496
Title IV, Part A - Safe and Drug-Free Schools and Communities	84.186	103,900
Emergency Impact Aid for Displaced Students	84.938C	379,046
Title I, Part F - Comprehensive School Reform Demonstration	84.332	16,917
Title III, Part A - English Language Acquisition Grants	84.365	18,901
Title II, Part D - Enhancing Education Through Technology Program	84.318	103,300
Advanced Placement Program	84.330	1,040
Tidewater Community College:		
Tech Prep Education	84.243	2,000
		18,947,675
Election Assistance Commission		
Pass-through payments:		
Virginia State Board of Elections		
Help America Vote Act of 2002	90.401	162,480
		162,480
Department of Homeland Security:		
Direct payments:		
Assistance to Firefighters	97.044	354,900
Disaster Relief Public Assistance	97.036	37,536
Pass-through payments:		
Virginia Department of Emergency Management:		
FEMA HGMP Quick Connect	97.039	8,143
State Domestic Preparedness Equipment Support Program	97.004	460,933
		861,512
		\$40,503,079

Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

(1) General

The accompanying schedule of expenditures of federal awards presents the activity of all federally assisted programs of the City of Chesapeake, Virginia. The City of Chesapeake's reporting entity is defined in note 1 to the City's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

(2) Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in note 1 to the City's basic financial statements.

(3) Relationship to Financial Statements

Federal expenditures, revenues, and capital contributions are reported in the City's basic financial statements as follows:

Intergovernmental revenues per the basic financial statements:

Primary government:	
General Fund	\$ 3,070,705
Capital Projects Fund	554,436
Special Revenue Funds:	
Virginia Public Assistance Fund	9,223,996
Community Services Fund	1,197,221
Community Development Fund	1,913,502
Grants Fund	3,297,556
Proprietary Fund	
Stormwater	37,536
Total primary government	19,294,952
Component unit - Public Schools:	
School Operating Fund	19,045,910
School Food Services Fund	4,564,507
Total component unit - Public Schools	23,610,417
Total federal expenditures from intergovernmental revenue	42,905,369
Federal revenue reserved for encumbrances in fund balance	(2,301,804)
Federal expenditures reported in prior years' financial statements	(2,066,254)
Federal expenditures from fund balance	1,965,768
Total federal expenditures per the Schedule of Expenditures of Federal Awards	\$ 40,503,079

(Continued)

Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

(4) Subrecipients

The Chesapeake Redevelopment and Housing Authority is the subrecipient for all federal awards received from the Department of Housing and Urban Development.

The Planning Council is the subrecipient for \$1,634,955 related to the Child Care Development Fund received from the Department of Social Services.

CITY OF CHESAPEAKE

Schedule of Findings, Questioned Costs, and Management's Response
Year Ended June 30, 2006

(1) Summary of Auditor's Results

- (a) The type of report issued on the general purpose financial statements: **unqualified opinion**
- (b) Reportable conditions in internal control were disclosed by the audit of the financial statements: **none noted**
Material weaknesses: **no**
- (c) Noncompliance which is material to the general purpose financial statements: **no**
- (d) Reportable conditions in internal control over major programs: **yes, findings 06-1 through 06-4**
Material weaknesses: **no**
- (e) The type of report issued on compliance for major programs: **unqualified opinion**
- (f) Any audit findings which are required to be reported under section 510(a) of OMB Circular A-133: **yes**
- (g) Major programs:
 - Child Nutrition Cluster: CFDA Nos. 10.553, 10.555 and 10.559**
 - Community Development Block Program: CFDA No. 14.218**
 - Child Care Cluster: CFDA Nos. 93.575 and 93.596**
 - Federal Highway Administration – Planning and Construction: CFDA No. 20.205**
 - Special Education Cluster: CFDA Nos. 84.027 and 84.173**
 - Improving Teacher Quality: CFDA No. 84.367**
- (h) Dollar threshold used to determine Type A programs: **\$1,203,571**
- (i) Auditee qualified as low-risk auditee under section 530 of OMB Circular A-133: **yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*: none noted.

CITY OF CHESAPEAKE

Schedule of Findings, Questioned Costs, and Management's Response
Year Ended June 30, 2006

(3) Findings Required to be Reported under Section 501(a) of OMB Circular A-133

Department of Agriculture

Child Nutrition Cluster; CFDA Nos. 10.553, 10.555 and 10.559, Program Year 2006

Finding 06-1: Reportable Condition - Procurement

Circular A-102 requires the Schools to maintain documentation to support its vendor selections on all procurement transactions. Further, the School's purchasing policy requires that the cost of goods and services purchased require certain criteria to be met in soliciting competitive prices. For example, purchases between \$5,000 and \$19,999.99 require three (3) competitive prices be obtained. In 3 out of 30 instances, we noted that the cost analysis documentation supporting the vendor selection was not adequate. The questioned costs associated with this finding are estimated to be approximately \$180,000. KPMG recommends that the School Board initiate procedures to ensure that vendor selection procedures are complied with and that the adopted policy and cost analyses are performed. Preferably, the documentation should show that a cost was obtained from more than one vendor, and indicate the basis for the vendor selection.

Response:

Management agrees with this finding. The finding relates primarily to the Schools' use of blanket purchase orders for various School Nutrition Services items. We acknowledge that the files did not include adequate cost analysis documentation to support the vendor selection. In response to this finding, the school division will strengthen its efforts to maintain and/or secure the appropriate cost analysis documentation for such transactions. This will be accomplished by ensuring that written cost analyses are maintained on file to support vendor selections. Also, in cases where there is only one vendor practically available for items that are to be procured, we will ensure that the files include adequate documentation to support this fact.

Department of Agriculture and Department of Education

Child Nutrition Cluster; CFDA Nos. 10.553, 10.555 and 10.559, Program Year 2006 and Improving Teacher Quality; CDFA No. 84.367

Finding 06-2: Reportable Condition - Time and Effort Certifications

CITY OF CHESAPEAKE

Schedule of Findings, Questioned Costs, and Management's Response
Year Ended June 30, 2006

OMB Circular A-87 Attachment B paragraph 8.h.(3) states "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee." Based on procedures performed by KPMG, certifications were not completed during the fiscal year for the Child Nutrition Cluster and certifications were completed for Improving Teacher Quality but one of the two was not dated; therefore it was not possible to determine if they were prepared on a timely basis. There are no questioned costs associated with this finding as the certifications were completed after fiscal year end. KPMG recommends the City and Schools implement procedures to ensure that the certifications will be prepared in accordance with OMB A-87.

Response – Child Nutrition Cluster:

Management agrees with this finding. The Schools currently require each grant/program director to complete time and effort certifications on a semiannual basis. We acknowledge that the time and effort certifications were not completed in a timely manner during FY 2006 for the School Nutrition Services department. In this case, the Director of School Nutrition Services was responsible for completing the time and effort certifications. However, due to turnover in the position during the fiscal year, these time and effort certifications were not completed before the departure of the Director. Therefore, this led to the certifications not being completed in a timely manner. In response to this finding, the school division will enhance its procedures related to monitoring and reviewing semiannual time and effort certifications to ensure that they are complete, accurate and received in a timely manner.

Response – Improving Teacher Quality:

Management agrees with this finding. The Schools currently require each grant/program director to complete time and effort certifications on a semiannual basis. We acknowledge that one of the FY 2006 semiannual time and effort certifications for this program was completed but not dated by the program director. In response to this finding, the school division will enhance its procedures related to monitoring and reviewing semiannual time and effort certifications to ensure that they are complete, accurate and received in a timely manner.

CITY OF CHESAPEAKE

Schedule of Findings, Questioned Costs, and Management's Response
Year Ended June 30, 2006

Housing and Urban Development; Federal Highway Administration

**Community Development Block Grant (CDBG); CFDA No. 14.218, Program Year 31;
Federal Highway Administration Planning and Construction Grant; CFDA No.
20.205, Pass-through Agency – Virginia Department of Transportation, Program
Year 2006**

Finding 06-3: Reportable Condition - Time and Effort Certifications

OMB Circular A-87 Attachment B paragraph 8.h.(3) states “Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation as defined in the circular. The personnel activity reports or equivalent documentation must reflect an after-the-fact distribution of the actual activity of each employee, they must account for the total activity for which each employee is compensated, they must be prepared at least monthly and must coincide with one or more pay periods, and they must be signed by the employee. Based on procedures performed by KPMG, certifications were adequately completed during the fiscal year; however they were prepared after the audit and signed by employees who were still working in those roles. The questioned costs associated with this finding were \$46,788 for CDBG and \$39,009 for Federal Highway Administration Planning and Construction. KPMG recommends the City implement procedures to ensure that the certifications will be prepared in accordance with OMB A-87.

Response - CDBG:

Management agrees with this finding. Due to staff turnover, time and effort certifications were not completed in a timely manner. The City will enhance its procedures related to the timely completion of the time and effort certifications for the CDBG program.

Response – Federal Highway Administration:

Management agrees with this finding. The City will enhance its procedures related to the timely completion of the time and effort certifications for the Federal Highway Administration Planning and Construction program.

CITY OF CHESAPEAKE

Schedule of Findings, Questioned Costs, and Management's Response
Year Ended June 30, 2006

Department of Transportation

Federal Highway Administration Planning and Construction Grant; CFDA No. 20.205, Program Year 2006

Finding 06-4: Reportable Condition - Allowable Costs

OMB Circular A-87 Attachment E paragraph D (1)(a) states "All departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support those costs." The City was reimbursed by the Virginia Department of Transportation (VDOT) for overhead amounts; however, the indirect cost rate was not approved by VDOT before the request for reimbursement. The questioned costs associated with this finding are \$31,677. KPMG recommends the City cease requesting reimbursements for overhead until an approved overhead rate is obtained.

Response:

Management agrees with this finding. The City is currently in the process of seeking VDOT's approval of the City's overhead rates for fiscal year 2006 reimbursements.

(4) Schedule of Commonwealth of Virginia Findings and Questioned Costs

Department of Social Services

Information Security Continuity of Operations

State Finding: 06-1

The Virginia Department of Social Services Information Security Policy requires each division, regional office, district office and local agency to develop, implement, and test a Business Continuity Plan, which ensures resumption of critical activities in the event of a business disruption. During our testwork, it was discovered that the current plan in place did not fully comply with the Virginia Department of Social Services Business Continuity Policy. The State requires that the plan consider various recovery strategies, evaluate the cost benefit of each and select the strategy that best responds to the requirements. No evidence supporting multiple recovery strategies and their costs were provided. The State

CITY OF CHESAPEAKE

Schedule of Findings, Questioned Costs, and Management's Response
Year Ended June 30, 2006

also requires plans to include recovery procedures and timeframes for execution. The adopted plan does not see timeframes outlined for the execution of those recovery procedures. Finally, the State's Business Continuity Plan requires all continuity plans be tested annually and that they be reviewed every 6 months and updated to maintain accurate information. It was apparent that the adopted plan had not been tested annually or maintained for accuracy. KPMG recommends that the current contingency plan be reviewed and altered to adhere to all requirements of the Virginia Department of Social Services Information Security Policy and the newly created plan be tested annually as well as reviewed for accuracy every six months.

Public Procurement Act

Competitive Cost Analysis

State Finding: 06-2

The Virginia Public Procurement Act outlines certain requirements that must be adhered to when purchasing goods and services. The Act allows the local municipality to establish its' own small purchases procedures for items acquired and non-professional services up to \$50,000. When the small purchase limit is exceeded, the Act mandates that a formal Invitation for Bid or Request for Proposal (RFP) be utilized. During our testwork we noted 3 vendors out of 36 tested where there was no support for the vendor selection or for the competitive cost analysis determination. KPMG recommends that the City enhance its policies and procedures to ensure that all purchases adhere to the Virginia Public Procurement requirements.



KPMG LLP
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**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 Audit Standards***

The Honorable Members of City Council
City of Chesapeake, Virginia:

We have audited the financial statements of the City of Chesapeake (the City) as of and for the year ended June 30, 2006, and have issued our report thereon dated December 22, 2006. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the City of Chesapeake Economic Development Authority and the Chesapeake Airport Authority, as described in our report on the City's financial statements. 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 Financing Reporting

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

We noted certain matters that we reported to management of the City in a separate letter dated December 22, 2006.

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 in accordance with *Government Auditing Standards*.



This report is intended solely for the information and use of the City Council, management and 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.

KPMG LLP

December 22, 2006



KPMG LLP
2100 Dominion Tower
999 Waterside Drive
Norfolk, VA 23510

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

The Honorable Members of City Council
City of Chesapeake, Virginia:

Compliance

We have audited the compliance of the City of Chesapeake, Virginia (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements 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 on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 06-1 through 06-4.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with 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 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 the internal control over compliance in accordance with OMB Circular A-133.



We noted four matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-1 through 06-4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the City Council, management and 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.

KPMG LLP

December 22, 2006



KPMG LLP
2100 Dominion Tower
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Report on Compliance with Commonwealth of Virginia Laws, Regulations, Contracts and Grants

The Honorable Members of City Council
City of Chesapeake, Virginia:

We have audited the financial statements of the City of Chesapeake, Virginia (the City) as of and for the year ended June 30, 2006, and have issued our report thereon dated December 22, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. We did not audit the financial statements of the City of Chesapeake Economic Development Authority or the Chesapeake Airport Authority, which represent 27% and 2%, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Chesapeake Economic Development Authority or the Chesapeake Airport Authority, is based on the reports of other auditors.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with such provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The following is a summary of the Commonwealth of Virginia laws, regulations, contracts, and grants (as specified in *Specifications for Audits of Counties, Cities, and Towns*, Chapter Three) for which we performed tests of compliance:

Code of Virginia

- Budget and Appropriation Laws
- Cash and Investments
- Conflicts of Interest Act
- Retirement Systems
- Debt Provisions
- Procurement
- Unclaimed Property Act
- Personal Property Tax Relief Act
- Enhanced 911 Service Taxes



State Agency Requirements

- Education
- Highway Maintenance Funds
- Social Services
- Comprehensive Service Act Funds
- Economic Development Opportunity Fund

The results of our tests discovered two instances of noncompliance with those requirements that are required to be reported in accordance with the *Specifications for Audits of Counties, Cities, and Towns*, which are described in the accompanying schedule of findings and questioned costs as state findings 06-1 and 06-2.

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

KPMG LLP

December 22, 2006