

Comprehensive Annual
Financial Report
of the
City of Chesapeake, Virginia
for Fiscal Year Ended
June 30, 2004

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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Office of the City Manager
306 Cedar Road
Chesapeake, Virginia 23322-5225
Office: (757) 382-6166
Fax: (757) 382-6507

www.cityofchesapeake.net

October 22, 2004

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, 2004, 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, 2003.
- 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 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 Assembly of the Commonwealth 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, Industrial Development Authority of the City of Chesapeake (the IDA), 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 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

Situated in the southeastern portion of the state known as the Hampton Roads region, Chesapeake is located within 750 miles of two-thirds of the nation's population and industrial activity. In the past decade Chesapeake has been one of the fastest-growing cities in the country, and results of the 2000 census indicate that Chesapeake is among the 100 largest cities in America. Industry, services, and agriculture, along with a growing manufacturing and retail sector, are the primary components of the local economy. Chesapeake's economy has remained relatively strong compared to other areas in the country. Local unemployment for both Hampton Roads and Chesapeake continues to remain well under the national rate. For the fiscal year ended 2004, the average unemployment rate was 3.4% in Chesapeake and 4.3% in Hampton Roads, compared to 5.8% in the U.S.

In calendar year 2003, 23 new firms opened facilities in Chesapeake, while 70 existing businesses expanded their operations. Combined, these 93 firms invested over \$80.1 million in capital investment and added more than 2,000 new employees to their payrolls. From 1993 through 2003, the City saw 212 new firms, 528 business expansions, 25,962 new non-retail jobs, over \$1.2 billion in capital investment, and 14.8 million of leased square footage.

Department stores and restaurants continue to join the ranks of the City's retailers. Over 7,000 retail merchants are licensed to do business in Chesapeake, and retail sales totaled over \$2.6 billion in calendar year 2003. The City is also home to over 180 manufacturers, employing over 8,900 people, with products ranging from industrial gears and gaskets, pumps and polystyrene plastic to copier components and contact lenses. The City continues its global appeal, being home to 70 international companies from 17 countries.

The 2003-2004 fiscal year includes the following economic development highlights:

- € In June 2004, City Council adopted an ordinance establishing a Tax Increment Financing District (TIF) in the Greenbrier section of the City. The goal of this ordinance adoption is to stimulate private investment and encourage commercial development within the TIF by means of the following: improve the capacity and flow of traffic within the Greenbrier area; improve the overall character of the Greenbrier Area with pedestrian walkways, attractive gateways, uniform signage, landscaping, lighting, and similar amenities; improve public transit access to and from the Greenbrier Area; expand public and private facilities at the Chesapeake Conference Center, including parking facilities and first-class hotel facilities; and provide improvements to public areas, including the City Park. The costs of improvements in the Greenbrier area will be funded by the incremental taxes collected from the improvements to these properties after January 1, 2005;

- € Created the South Norfolk Redevelopment Plan. This plan focuses on recreating the commercial corridor along Poindexter Street, from the Southern Branch of the Elizabeth River to Liberty Street. It will also include some projects in the Campostella Square neighborhood;
- € Created the Great Bridge Village Redevelopment Plan. This plan will allow the City to capitalize on the commercial and recreational opportunities provided by the Intracoastal Waterway, improved automobile access, and the new Great Bridge Battlefield Museum and Visitors Center;
- € Prepared an ordinance encouraging Brownfield redevelopment (first locality in Virginia to implement Brownfield legislation passed by the General Assembly). Approved on July 22, 2003, the City of Chesapeake now has available a five-year real estate tax exemption for “environmental restoration site(s)” accepted into Virginia’s Department of Environmental Quality’s (DEQ) Voluntary Remediation Program. The DEQ program is part of the Brownfield’s Land Renewal initiative that limits the liability, time, and cost of clean-up for participating owners through specially enacted state legislation. The City’s real estate tax exemption is the first approved by a Virginia locality under the Brownfield legislation. Many Virginia localities and landowners have benefited from the DEQ program by turning vacant sites into useable and revenue-generating properties;
- € Implemented first formal business retention and expansion program. As part of its first Strategic Plan, the Economic Development Department has created the Growth, Retention, and Expansion Assistance Team (GREAT) program, a formal business retention program designed to help the City’s existing businesses succeed. The GREAT program creates a renewed and ongoing focus on one of Chesapeake’s most valuable assets, its existing businesses. The program supports the recently developed Economic Development Strategic Plan by setting forth objectives and strategies that bring a team approach to business retention. Communication, collaboration, and partnering are all focuses of the GREAT plan to maintain a business environment where companies will succeed and grow;
- € Attracted AmeriComm, a mail operations center. This firm was originally based in Norfolk but selected Chesapeake over Elizabeth City, NC as the site for its new facility, thus keeping an existing firm in Hampton Roads. AmeriComm expects to create 170 jobs through an estimated \$3.5 million investment and is expected to absorb approximately 75,000 square feet in Greenbrier Business Park;
- € FlowServe, manufacturer of industrial pumps expanded their existing facility in Cavalier Industrial Park creating 25 new jobs through an \$8 million investment and absorbing an additional 20,000 square feet; and
- € Givens, Inc., a Chesapeake based provider of logistics management and services, continued their expansion in the City creating 30 new jobs through a \$5 million investment and absorbing an additional 65,000 square feet.

Despite the demands imposed from ongoing growth, Chesapeake retains an image as a good place to live and do business. The City has been recognized by *Money* magazine as one of the best cities in America. *Home Office Computing* magazine has called Chesapeake one of the top five places to start a home-based business. The study compared incomes, as well as the accessibility of the local government in providing assistance to potential small businesses. Chesapeake has also been named one of the top ten U.S. cities for attracting foreign business investment by the *Site Selection* magazine.

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. The current economic climate has made it more challenging to find the necessary resources to keep up with increased demands for services for a growing city. Additionally, Hurricane Isabel hit the City on September 18, 2003, causing damages of over \$21.2 million. The City was declared a natural disaster area, providing for low-cost loans to citizens for storm recovery. The City received federal and state assistance which offset the impact to the budget. Cuts to the State budget have been ongoing since 2002. In 2004, these reductions continued and directly impacted the City through lower revenues from the Commonwealth to support City programs. Management and City Council continue to work proactively to effectively manage limited resources and increasing costs now and in the next few years.

During fiscal year 2004 the City achieved the following accomplishments:

- ∞ The Commissioner of the Revenue implemented 2-D bar coding to streamline the processing of the State income tax returns and completed design work on a comprehensive computer program for business taxes;
- ∞ The City successfully completed the State's first project through the Public Private Educational and Facilities Infrastructure Act (PPEA). The Community Services Board building was financed and a developer began construction on the building in 2004. The fast-track project was completed in August 2004;
- ∞ Construction began on the new Indian River Library which will replace an existing library. The new library will be three times the size of the old facility. Completed in September 2004 the library includes an enclosed children's room, quiet study rooms, community meeting room for 100, public internet access, and a young adult room. The branch library has the capacity to house over 70,000 items;
- ∞ The City completed phase one of the new recreation software installation. The software allows residents to register for classes, purchase membership cards, and make facility reservations at any park or community center. Phase two is currently underway which will allow class registration via the Internet;

- € The Planning Department secured \$200,000 in federal funds for the Poindexter Street Improvement Project under the Transportation Equity Act for the 21st Century. Conceptual plans for the street are complete and construction on portions of it will begin in the Fall of 2004;
- € The City broke ground on the Lake Gaston Water Treatment Plant in Western Branch. The plant is designed to pump up to 13.6 million gallons of treated water per day; and
- € The Treasurer's Office implemented a system to allow customers to pay tax bills and other fees using online checks. This convenient, 24-hour-per-day system allows for the creation of taxpayer profiles, eliminating the need to re-enter information for each transaction.

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 117,617 in June 2004 per the Virginia Employment Commission, an increase of 22%.

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 an average of 4.5% between 1985 and 1995, to an average annual growth rate of 1.6% since 1995. One major tool used to manage growth is the Planning and Land Use Policy, adopted and incorporated into the City's Comprehensive Plan by City Council in 1995. Under this policy, level of service tests for schools, roads, and sewer capacity were established and are applied to all rezoning applications in the City. Chesapeake's growth management policies are serving as models for other Virginia localities that are attempting to control growth without stifling development.

Since the mid-1990s, a variety of additional studies, plans, and ordinance revisions have been developed to address specific aspects of the City's land use and growth objectives. Area plans for the Western Branch and South Norfolk areas were adopted by City Council in 1995 and 1996, respectively. A land study was conducted to identify development potential west of Interstate 664 in the Western Branch area of the City. In June 2000, a Transportation Corridor Overlay District was adopted to preserve land for economic development opportunities along two of the City's key transportation corridors while managing emerging development patterns. Additionally, a Historic Preservation Plan and Reconnaissance Survey of architectural resources have been developed for the City. Periodic amendments to the City's Zoning Ordinance, Subdivision Ordinance, and Sign and Landscaping Ordinances continue to refine the City's ability to manage growth.

Furthermore, the City has embarked on its biggest planning project in ten years - an update of its Comprehensive Plan. 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 will be a component of the Plan, such as the coordination of capital improvements and other resources to achieve the Plan's goals. The update of the Comprehensive Plan is occurring in three distinct phases. Phase One, which is complete, entailed an assessment of existing conditions and issues. Phase Two, also completed, focused on the creation and selection of a preferred future development scenario from several alternatives. Phase Three, now underway, is focusing on the development of an action plan to achieve a preferred alternative. It is anticipated that the Forward Chesapeake 2026 Comprehensive Plan will be adopted by City Council in Winter 2004.

Council's responsiveness to development demands, as well as its commitment to orderly growth, has enhanced those quality of life values Chesapeake's citizens have embraced. Chesapeake has been featured in *50 Fabulous Places to Raise Your Family* and is ranked by the FBI as one of the safest cities of its size in the country. In December 2003, *Money* magazine ranked the City as one of the best places to live in America, based on income levels, cost of housing, population growth, and employment.

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 and regulations, the audit for the fiscal year ended June 30, 2004 disclosed no internal control material weaknesses or material violations of applicable laws and regulations.

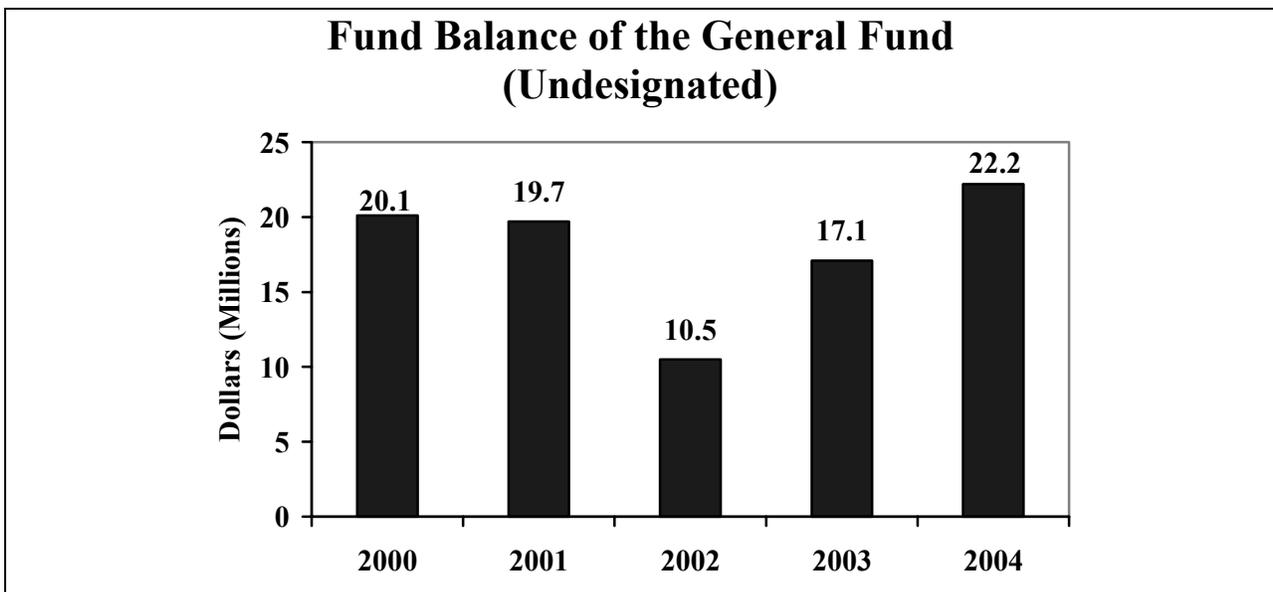
Budgetary Controls. Budgetary controls are maintained to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Activities of the General Fund, certain Special Revenue Funds, Debt Service Fund, Enterprise Funds, Chesapeake Mosquito Control Commission – 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 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 fixed asset category. Special revenue funds have been established for programs that the City needs to track separately. There are ten 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, 2004 designation for cash flow emergencies totaled \$24,111,563. 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. In fiscal year 2002, City Council elected to freeze the amount of the designation for operating emergencies at \$16,505,980. This reserve was increased by \$280,000 with the adoption of the fiscal year 2003-2004 budget to provide a June 30, 2004 balance of \$16,785,980. Council approved an additional increase of \$493,856 with the adoption of the fiscal year 2005 budget. In addition to the designation for cash flow emergencies and designation for operating emergencies, \$8,374,738 has been set aside in various reserves and other designations.



The undesignated General Fund fund balance, which represents available current financial resources, totaled \$22,218,033 at June 30, 2004, an increase of \$5,112,608 from the prior year. The change is primarily due to the continual monitoring of expenditures by departments resulting in approximately \$5.7 million budgetary savings as well as revenues exceeding expectations. Uses of the undesignated fund balance are carefully evaluated to ensure that the balance will be sufficient for future needs. A healthy undesignated fund balance allows the City to provide adequate services for the citizens, plan for future projects, and retain its sound financial position.

Summary of Changes in Undesignated Fund Balance of the General Fund			
(in Millions)			
Undesignated fund balance at June 30, 2003			\$ 17.1
Revenues		\$ 401.3	
Expenditures:			
Current	\$ 332.3		
Other financing uses, net	<u>60.0</u>	(392.3)	
Increase in reserves and designations		<u>(3.9)</u>	
Increase in undesignated fund balance			<u>5.1</u>
Undesignated fund balance at June 30, 2004			<u>\$ 22.2</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, 2004, cash temporarily idle during the year was invested in demand deposits (5.05%), repurchase agreements ranging from one to five days (0.59%), and in the following instruments with an average maturity of 161 days: Virginia banks' certificates of deposit covered by federal depository insurance or collateralized under the Virginia Security for Public Deposits Act (12.95%), bankers' acceptances (.12%), U. S. Government and Agencies (15.35%), commercial paper which has obtained ratings no lower than A-1 by Standard & Poor's and no lower than P-1 by Moody's (8.88%), short-term corporate notes of domestic corporations with a rating no lower than Aa by Moody's and AA by Standard & Poor's (2.85%), full flex repurchase agreements (.26%), the Local Government Investment Pool "LGIP" (24.02%), Evergreen U.S. Treasury Money Market (0.50%), and the Virginia State Non-Arbitrage Program "SNAP" (29.40%), and US Treasury Securities (0.03%). 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 repo 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, 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 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 1.37%, which compares favorably with the average earnings yield of 0.98% for the U.S. Treasury three-month bill rate. The City of Chesapeake primary government earned revenues of \$2,534,806 on investments for the year ended June 30, 2004.

The breakdown of the interest earnings is as follows:

Interest on Invested Funds	
Fund Type	Interest Earned
General Fund	\$ 286,011
Debt Service Fund	167,165
Capital Projects Fund	819,661
Special Revenue and Permanent Funds	90,537
Enterprise Funds	1,058,683
Internal Service Funds	112,749
Total Interest Earned	\$ 2,534,806

The City's Comprehensive Investment Policy has been established according to the Governmental Accounting Standards Board (GASB) guidelines with the goal that investments fall within Category #1 type investments. Category #1 includes investments that are insured or registered and for which the securities are held by the City or its safekeeping agent in the City's name. Accordingly, a designated institution holds investments in third-party safekeeping except for Category #3 investments and those investments are insured by FDIC or collateralized according to the provision of the Virginia Public Deposit Act. Category #3 includes uninsured and unregistered investments for which the securities are held by the counter-party's trust department or safekeeping agent but not in the City's name. All of the City's investments are within the guidelines of the Virginia statutes for safekeeping, as described in the section entitled *Investment of Public Funds*. In accordance with GASB Statement No. 3, investments held in LGIP, SNAP, First Union's full flex repurchase agreement, Evergreen Investment Advisors, and trustee money market funds are not categorized.

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 107) 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, 2003. This was the 22nd 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.

In closing, without the leadership and support of the governing body of the City of Chesapeake, preparation of this report would not have been possible.

Very truly yours,

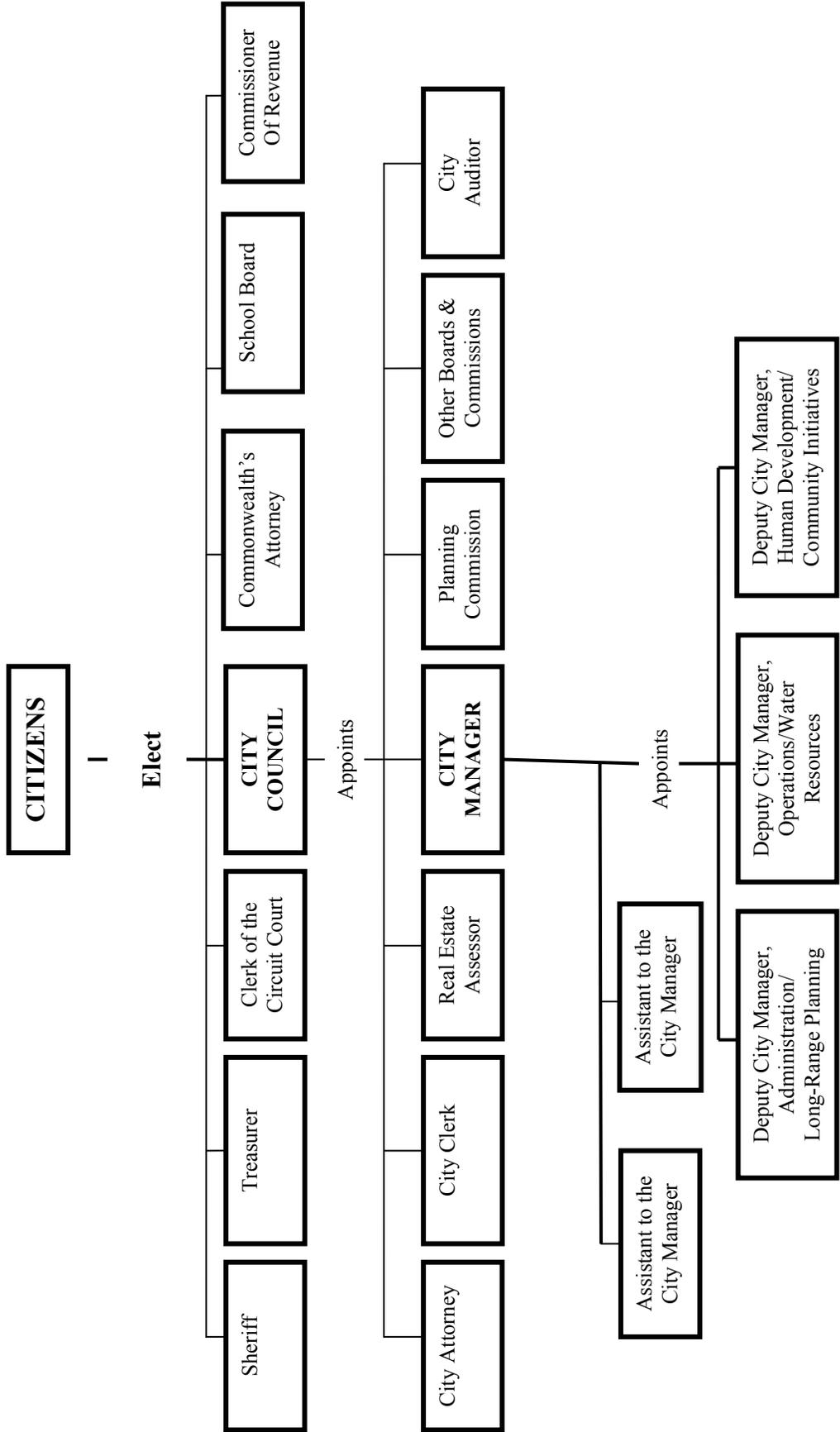
/S/

Dr. Clarence V. Cuffee
City Manager

/S/

Nancy C. Tracy
Director of Finance

Organization Chart



CITY OF CHESAPEAKE, VIRGINIA

City Officials
June 30, 2004

City Council

Dr. William E. Ward Mayor
John M. de Triquet M.D. Vice Mayor

Rebecca C. W. Adams
Dalton S. Edge
Dr. Alan P. Krasnoff
W. Joe Newman
Dwight M. Parker
S. Z. “Debbie” Ritter
Patricia Pritchard Willis

Other Officials

Dr. Clarence V. Cuffee City Manager
Anne F. Odell Deputy City Manager, Administration/Long Range Planning
Amar Dwarkanath Deputy City Manager, Operations/Water Resources
Mary Ann Saunders Assistant to the City Manager
Anna D’Antonio Assistant to the City Manager
Dolores A. Moore City Clerk
Ronald S. Hallman City Attorney
V. Thomas Forehand, Jr. Chief Justice, Circuit Court
S. Bernard Goodwyn, Frederick H. Creekmore
and Bruce Kushner 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. Wright Judges, General District Court
Phyllis Hamric Clerk of the General District Court
Rufas A. Banks Chief Judge, Juvenile and Domestic Relations Court
Larry D. Willis, Eileen A. Olds Judges, Juvenile and Domestic Relations Court
Lorraine M. Strohecker Clerk of the Juvenile and Domestic Relations Court
Randall D. Smith Commonwealth’s Attorney
Nancy C. Tracy Director of Finance
Betty Jean Meyer Budget 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, 2004

R. Stephen Best, Sr. Fire Chief
Patrick M. Hughes Director of Neighborhood Services
Watson Lawrence..... Interim 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
Colonel Richard A. Justice Chief of Police
Mary J. Bullock..... Interim 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" Roberts..... Director of Human Services

School Board

Barbara B. Head..... Chairman
Thomas L. Mercer, Sr. Vice Chairman

Dr. Shelia G. Hill
Jay Leftwich
Harry A. Murphy
Stephen C. Rodriguez
Dr. Ella P. Ward
Ann R. Wiggins
Michael J. Woods

CITY OF CHESAPEAKE, VIRGINIA

City Officials, Continued
June 30, 2004

Other School Board Officials

Dr. W. Randolph Nichols..... Superintendent
Dr. William E. Russell..... Deputy Superintendent
Dr. Linda D. Palombo.....Assistant Superintendent - Curriculum and Instruction
Fred Cabler.....Assistant Superintendent - Budget and Finance
Dr. William S. Myers..... Assistant Superintendent - Personnel and Support Services
Steve Gilbert.....Assistant Superintendent - Operations
Edward L. Hughes.....Clerk of the Board

Supplemental Listing

Charles Brinkman..... Secretary/Treasurer, Chesapeake Airport Authority
Warren D. Harris.....Executive Director, Chesapeake Port Authority
Warren D. Harris.....Executive Secretary, Industrial 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, 2003

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



President

Executive Director

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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, 2004, 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 Industrial Development Authority or the Chesapeake Airport Authority, which together represent 31% and 1%, 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 Industrial 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*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our 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, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2004 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 on pages 4 through 20 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 accounting principles generally accepted in the United States of America. 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 and statistical sections 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

October 22, 2004

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



CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis
Year ended June 30, 2004

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, 2004. 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 2004

- € The assets of the City of Chesapeake, on a government-wide basis excluding component units, exceeded its liabilities at the close of fiscal year 2004 by \$990.8 million (*net assets*). Of this amount, \$105.6 million is unrestricted.
- € The City's total net assets increased by \$36.8 million from the prior year. The governmental net assets increased \$30.0 million and business-type net assets increased by \$6.8 million. A significant portion of this increase (\$24.5 million) is attributable to the donation of infrastructure assets to the City, for both governmental and business-type purposes, as well as State and developer funds for capital projects.
- € At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$164.8 million, an increase of \$13.4 million from the prior year. Approximately 73% or \$120.8 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 \$9.0 million, primarily due to higher than expected revenues, coupled with restrained spending efforts by departmental managers.
- € At the end of the current fiscal year, undesignated fund balance for the General Fund was \$22.2 million, or 7% of total General Fund expenditures.
- € The City's total bonded debt decreased by \$26.0 million (5%) during the current fiscal year, due to the scheduled repayment of principal of \$28.1 million.
- € The City issued \$95.5 million of general obligation refunding bonds during the year in order to refund \$65.0 million of general obligation public improvement bonds and \$33.3 million of general obligation water and sewer bonds. The refunding resulted in a net savings of over \$8 million in future debt service payments.
- € The CSB of Chesapeake, Inc., a blended component unit reported as a special revenue fund of the City, issued a \$4.9 million lease revenue bond. This bond will be used to purchase the Community Services Board building.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2004

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*.

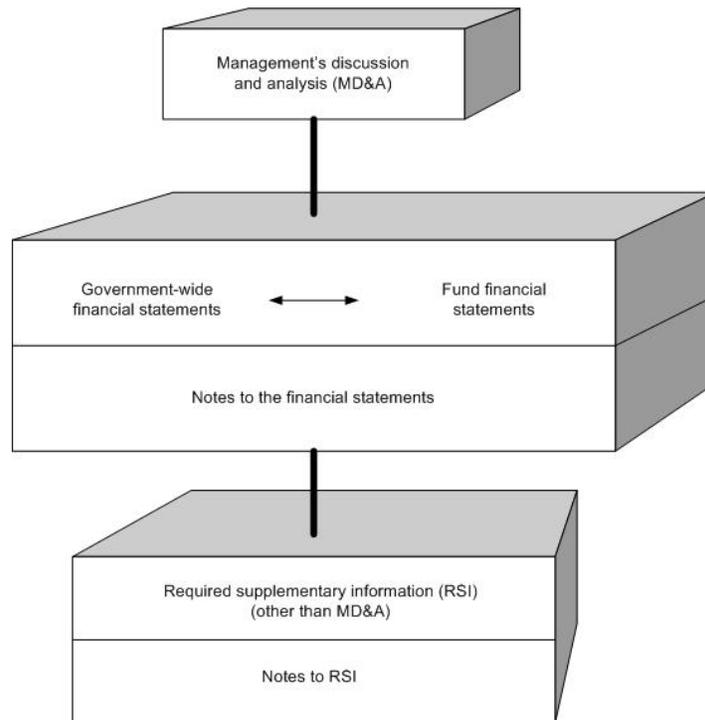
The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2004

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 report information about the City of Chesapeake as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets and the Statement of Activities, which are the government-wide statements, include *all* of the government's assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2004

revenues and expenses are taken into account regardless of when cash is received or paid. These two government-wide statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – is one way to measure the City's financial health, or *financial position*. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors such as changes in the City's property tax base and the condition of the City's roads and other infrastructure may need to be considered to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, the City is divided into three categories:

- ∅ *Governmental activities* – Most of the City's basic services are included here, such as the police, fire, public works, public welfare, parks and recreation departments, and general administration. Property 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 Industrial 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.

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

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2004

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' 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).

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. In the case of the City of Chesapeake, assets exceeded liabilities by \$990.8 million at the close of fiscal year 2004. By far the largest portion of the City's net assets (80%)

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2004

reflects its investment in capital assets (e.g., land, buildings, equipment, infrastructure), less accumulated depreciation and less any related outstanding debt used to acquire those assets. The City uses these assets to provide services to its citizens and consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources.

Statement of Net Assets

The following table reflects the condensed Net Assets:

Table 1
Summary of Net Assets
June 30, 2004 and 2003
(in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Assets						
Current and other assets	\$ 218.1	199.6	105.1	114.6	323.2	314.2
Capital assets	989.4	992.6	428.6	415.5	1,418.0	1,408.1
Total assets	\$ 1,207.5	1,192.2	533.7	530.1	1,741.2	1,722.3
Liabilities						
Current and other liabilities	\$ 21.6	18.4	7.4	5.6	29.0	24.0
Long-term liabilities	484.8	502.7	236.6	241.6	721.4	744.3
Total liabilities	506.4	521.1	244.0	247.2	750.4	768.3
Net assets						
Invested in capital assets, net of related debt	563.3	544.9	228.1	237.0	791.4	781.9
Restricted net assets	33.4	27.3	60.4	44.7	93.8	72.0
Unrestricted net assets	104.4	98.9	1.2	1.2	105.6	100.1
Total net assets	701.1	671.1	289.7	282.9	990.8	954.0
Total liabilities and net assets	\$ 1,207.5	1,192.2	533.7	530.1	1,741.2	1,722.3

Approximately 9% of the City's net assets are subject to external restrictions. The remaining balance of *unrestricted net assets* (\$105.6 million or 11%) 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 2003.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2004

There was an increase of \$6.8 million in total net assets in the business-type activities. Approximately \$6 million of this increase resulted from donated infrastructure assets.

The City's total net assets increased by \$36.8 million during the fiscal year. The increase in revenues (12%) exceeded the increase in expenses (8%) for this period.

Governmental Activities

Net assets of the City's governmental activities increased by \$30 million as shown on the Statement of Activities, accounting for 82% of the total growth in net assets of the City. This increase was largely due to capital grants and contributions supporting the Public Works function, which includes roads. Over \$14.5 million in donated infrastructure assets are included in this category, up from \$9 million in the prior year. Expenses increased by 9%, largely due to the costs associated with Hurricane Isabel recovery. These costs were more than offset by a 13% increase in revenues for governmental activities.

Business-type Activities

The net assets of the City's business-type activities increased from \$282.9 million to \$289.7 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 \$5.9 million. Current and other assets decreased by approximately \$9.5 million due primarily to the spending of restricted cash from bond proceeds for capital construction. There were no major fee increases for the period; however, expenses increased approximately 6%, due to interest expense of the Public Utilities fund on new debt issued in fiscal year 2003 and repair and maintenance activities in Stormwater Management.

Statement of Activities

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

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2004

Table 2
Changes in Net Assets
Years Ended June 30, 2004 and 2003
(in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Revenues						
Program revenues:						
Charges for services	\$ 20.7	18.9	52.9	46.9	73.6	65.8
Operating grants and contributions	88.5	70.0	1.0	1.0	89.5	71.0
Capital grants and contributions	18.5	13.5	5.9	8.3	24.4	21.8
General revenues:						
Property taxes	205.2	186.7	-	-	205.2	186.7
Other taxes	102.9	94.7	-	-	102.9	94.7
Unrestricted investment earnings	1.3	1.5	-	0.1	1.3	1.6
Other	0.3	0.7	-	-	0.3	0.7
Capital grants and contributions not restricted to specific programs	29.4	28.3	-	-	29.4	28.3
Total revenues	466.8	414.3	59.8	56.3	526.6	470.6
Expenses						
General government	107.6	80.5	-	-	107.6	80.5
Public safety	73.5	65.8	-	-	73.5	65.8
Public works	36.7	37.5	-	-	36.7	37.5
Parks	8.9	9.3	-	-	8.9	9.3
Public welfare	34.0	32.7	-	-	34.0	32.7
Education	134.5	134.2	-	-	134.5	134.2
Public Utilities	-	-	38.6	36.3	38.6	36.3
Chesapeake Expressway	-	-	8.7	8.9	8.7	8.9
Stormwater Management	-	-	3.4	2.7	3.4	2.7
Depreciation - unallocated	20.6	20.5	-	-	20.6	20.5
Other	-	-	1.9	1.6	1.9	1.6
Interest on long-term debt	21.4	21.8	-	-	21.4	21.8
Total expenses	437.2	402.3	52.6	49.5	489.8	451.8
Excess before transfers	29.6	12.0	7.2	6.8	36.8	18.8
Transfers	0.4	1.0	(0.4)	(1.0)	-	-
Increase in net assets	30.0	13.0	6.8	5.8	36.8	18.8
Net assets - beginning	671.1	658.1	282.9	277.1	954.0	935.2
Net assets - ending	\$ 701.1	671.1	289.7	282.9	990.8	954.0

Governmental Activities

The City's total revenues from governmental activities were \$466.8 million for the fiscal year ended June 30, 2004. The largest source of revenue (\$205.2 million for fiscal year 2004) for the City is property taxes, composed of real estate and personal property taxes. Revenue from property taxes increased 10% over the prior year, largely due to the 9.3% increase in the City's assessed real property tax base. The City has maintained the same real estate tax rate (\$1.26 per \$100 of assessed value with an additional \$.02 for the Mosquito Control Commission) for the last nine years.

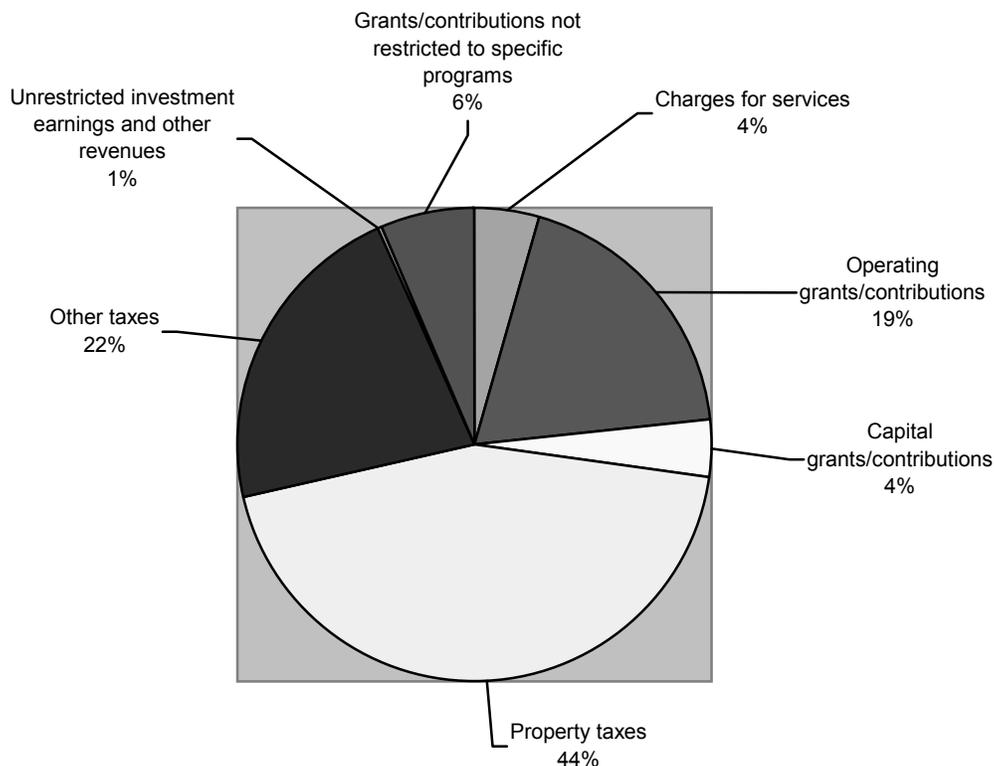
CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2004

Revenues from other taxes increased 9% over the prior fiscal year, fueled in part by increased consumer activity after Hurricane Isabel. Approximately 58% of the City's revenue from governmental and business-type activities comes from some type of tax, and 14% comes from fees charged for services.

The City's expenses for governmental activities cover a wide range of services, with 17% or \$73.5 million for fiscal year 2004 related to public safety and 31% or \$134.5 million for fiscal year 2004 for education (payments to the Public Schools, a component unit). Overall, expenses for governmental activities increased by 9% largely in response to the recovery efforts associated with Hurricane Isabel.

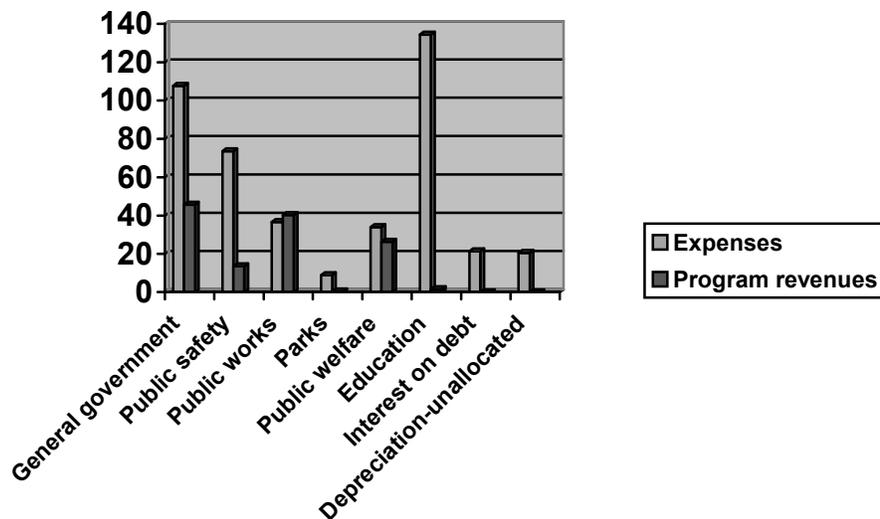
Revenues by Source – Governmental Activities – Year Ended June 30, 2004



CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2004

Expenses and Program Revenues – Governmental Activities (in millions) Year Ended June 30, 2004



Business-Type Activities

Net assets for the City's business-type activities increased by \$6.8 million largely as a result of assets deeded over by developers. This increase accounted for 18% 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 88% of total revenues for business-type activities. Expenses for the Stormwater Management activity were up slightly due to repair and maintenance charges for the fleet and increased drainage pipe repair work. The net increase in expenses for all business-type activities was 6%.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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 a city's net resources available at the end of a fiscal year. For the fiscal year ended June 30, 2004, the governmental funds reported combined ending fund balances of \$164.8 million, an increase of \$13.4 million over the prior year.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2004

Included in this are the following major transactions in governmental funds for the year ended June 30, 2004:

- € Expenditures of over \$21 million for Hurricane Isabel damage, with over \$16 million covered by State and Federal reimbursements.
- € \$14.6 million spent in the Capital Projects Fund to fund infrastructure, the integrated financial management system, a new fire station, and other community facilities throughout the City.
- € \$127.8 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 \$24.6 million in debt service for the Public Schools.
- € \$23.5 million principal debt retired.
- € Refinancing of \$65.0 million public improvement bonds for debt service savings.

Approximately \$120.8 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, 2004 in the following amounts and for the following purposes:

- € \$24.1 million for cash flow emergencies
- € \$16.8 million for operating emergencies
- € \$22.1 million for debt service
- € \$18.8 million for construction projects
- € \$7.5 million for various other purposes

The remainder of the unreserved fund balance at June 30, 2004, not designated for a specific purpose, includes \$22.2 million in the General Fund, the City's chief operating fund. This amount represents 6.7% of total General Fund expenditures, as a measure of the General Fund's liquidity. Total fund balance of the General Fund increased by \$9 million for fiscal year 2004. 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 \$5.1 million. This increase represents an excess of revenues over expenditures of \$69.0 million, other financing sources (uses) net, of \$60.0 million, and a net increase in reserves and designations of \$3.9 million.

The General Fund experienced an overall 9% growth in revenue. Hurricane Isabel, a Category I hurricane, hit the Hampton Roads area in September 2003, causing significant damage throughout the City. Relief funds from FEMA and the Commonwealth of Virginia totaled over \$16 million, which helped to offset most of the City's cost. Investment income was down 48% due to the decrease in interest rates nationwide. General property taxes accounted for \$15.9

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2004

million in increased tax revenue for the City, with an 8% increase over 2003. Total revenues from local sources grew by \$17.9 million or 6%. Expenditures increased overall 8% from the fiscal year 2003 level. The major increase occurred in the general government category, mainly due to the effects of Hurricane Isabel, with damages totaling approximately \$21 million. After removing the impact of these emergency expenditures, total expenditures for 2004 decreased by 1% over 2003. A hiring freeze was in effect for a significant part of the year contributing to the General Fund's year-end cost efficiencies.

The Debt Service Fund ended the year with \$25 million in total fund balance, essentially unchanged from the prior year. The unreserved fund balance is \$22.1 million, which has been designated by City Council for the payment of debt service. There was a minimal net decrease in fund balance of \$80,000, which included the following major transactions:

- € a planned use of fund balance of \$800,740 for capital projects;
- € issuance of \$63 million in general obligation refunding bonds, with a total premium received of \$7.8 million, used to refund \$65.0 million in outstanding debt offset by payments to refunded bond escrow agent of \$70.3 million; and
- € a transfer of \$844,000 from lottery proceeds received by the Schools, to fund debt service on 2002 school bonds issued for Grassfield High School.

The City spent \$14.6 million in the Capital Projects Fund to fund major capital projects, including Cedar Road improvements, the Great Bridge (AIW) Bridge, Brentwood Fire Station #9 in Camelot, the integrated financial management system, and improvements in Campostella Square.

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 \$48.7 million. Growth in net assets was \$8.3 million, resulting mainly from the booking of deeded and donated assets from developers in the amount of \$5.9 million. The increase in net assets prior to the impact of this transaction was \$2.4 million. Approximately \$17.9 million was spent on major water and sewer capital projects.

The Chesapeake Expressway toll road reported operating revenues for fiscal year 2004 totaling \$6.7 million versus \$6.2 million for 2003. Operating expenses for the year amounted to \$6.6 million, with \$4.4 million from depreciation expense. Net assets decreased by \$2.3 million, with the Chesapeake Expressway Fund covering interest expense of \$2.2 million on the toll road revenue bonds. Additionally, the fund made repayments to the Commonwealth of Virginia for State Urban funds that helped fund the initial construction of the toll road.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2004

The Stormwater Management Fund, an enterprise fund, had \$7.2 million in restricted net assets at June 30, 2004, up from \$6.6 million in 2003. Income from operations was \$1.3 million. Any fees collected in excess of current operating needs are restricted for use on future stormwater projects around the City. Approximately \$900,000 was spent on various stormwater, dredging, and drainage improvement projects during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual
Revenues:			
Taxes	\$ 291,324,000	292,708,816	301,413,014
Intergovernmental	65,708,105	83,124,392	86,129,708
Other	13,421,740	13,668,692	13,508,574
Total	370,453,845	389,501,900	401,051,296
Expenditures and transfers:			
Expenditures *	187,574,064	210,178,509	204,504,618
Transfers (net)	185,986,844	188,123,419	187,501,085
Total	373,560,908	398,301,928	392,005,703
Change in fund balance	\$ (3,107,063)	(8,800,028)	9,045,593

*The City's budget ordinance includes, as part of the original budget for expenditures, the amount of \$2.5 million for encumbrances reappropriated from June 30, 2003.

Differences between the original budget and the final amended budget for the City's General Fund amounted to \$24.7 million (increase in appropriations and transfers) and include the following major changes:

- € \$22.0 million appropriation for costs related to Hurricane Isabel, funded by \$18 million from Federal and State reimbursements, \$1.4 million from local tax revenues and \$2.5 million from the General Fund fund balance;
- € \$732,000 appropriation from the General Fund fund balance for costs to support the Commonwealth of Virginia vs. Lee Boyd Malvo trial;
- € \$400,000 appropriation for the Economic Development Incentive program, funded from the designated fund balance; and
- € Over \$1.5 million appropriations transferred to the Central Fleet Internal Service Fund for purchase of fleet vehicles for user departments.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2004

Actual total revenues exceeded the amended budget by \$11.5 million, largely due to higher than expected revenues from local sales and use taxes, resulting from the effects of Hurricane Isabel clean up as well as a higher than expected growth rate in the region. Restaurant food taxes provided excess revenues for the same reasons. Expenditures were significantly below budget by \$5.7 million. This positive budget variance helped to offset the planned use of designated and undesignated fund balance and reserves in the amount of \$8.8 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, 2004, amounts to approximately \$1.4 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 1% (a decrease of less than 1% for governmental activities and an increase of 3% for business-type activities).

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

- € The City capitalized the \$14 million 800 MHz digital radio system and towers and \$6 million in various infrastructure assets.
- € Construction in progress totaled \$40.7 million for governmental activities at the end of the fiscal year (including certain Public Schools projects under construction).
- € Construction in progress totaled \$48.8 million for business-type activities at the end of the fiscal year.

The City's fiscal year 2005 capital budget calls for \$32.7 million for capital projects, including \$4 million for Campostella Community Center and \$1.5 million for the South Norfolk Strategic Development project. The City plans to issue \$14 million in bonds with other funding provided by local and State funds.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2004

City of Chesapeake's Capital Assets (net of accumulated depreciation) June 30, 2004 and 2003 (in millions)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 258.1	251.8	17.2	17.1	275.3	268.9
Construction in progress	40.7	56.0	48.8	30.4	89.5	86.4
Buildings	382.6	388.1	3.8	4.0	386.4	392.1
Improvements other than buildings	20.3	8.2	1.0	1.0	21.3	9.2
Equipment and vehicles	24.7	21.5	4.4	5.1	29.1	26.6
Infrastructure	263.0	267.0	353.4	358.0	616.4	625.0
Total	\$ 989.4	992.6	428.6	415.6	1,418.0	1,408.2

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 \$523,552,664. Of this amount, \$494,432,664 comprises debt backed by the full faith and credit of the City and \$29,120,000 is debt secured by revenues of the Public Utilities Fund and the Chesapeake Expressway Fund.

City of Chesapeake's Outstanding Debt General Obligation, Revenue Bonds, and Literary Loans June 30, 2004 and 2003 (in millions)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 355.0	375.1	133.1	138.2	488.1	513.3
Revenue bonds	-	-	29.1	29.4	29.1	29.4
Literary loans	6.3	6.8	-	-	6.3	6.8
Total	\$ 361.3	381.9	162.2	167.6	523.5	549.5

Chesapeake's total bonded debt decreased by \$26.0 million during the fiscal year. The City refunded over \$98.3 million public improvement and water and sewer bonds for a net reduction of \$2.8 million in outstanding debt. In addition, the City made budgeted debt principal repayments amounting to \$28.1 million. Lease revenue bonds backed by the City's general obligation pledge, issued by a blended component unit, CSB of Chesapeake, Inc., in the amount of \$4.9 million have been reported with the City's total debt outstanding for governmental activities.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2004

The City maintains a AA rating from Standard & Poor's Corporation on general obligation bond issues. Under Moody's Investors Service, the City maintains a 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 Baa2 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 \$1,324,874,722, 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 2004 for the City of Chesapeake is 3.4%, which remained the same from fiscal year 2003. This compares to the state's average unemployment rate of 3.7% and the average national rate of 5.8%.
- ∅ Chesapeake's annual population growth rate has slowed over the past several years, from a high of 4.73% between 1986 and 1987, to 1.62% between 2003 and 2004.
- ∅ Declining state support in numerous program areas continues to be a challenge in the City's desire to maintain local support levels without an increase in the real estate tax rate.
- ∅ The Virginia Retirement System (VRS) raised rates for Chesapeake City employees for fiscal year 2005 by 5.25%, an increase which will cost the City \$6.3 million annually. These costs are planned to be absorbed within the base operating budget.
- ∅ To help address the identified School and City capital backlog, funds have been 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.

All of these factors were considered in preparing Chesapeake's budget for the 2005 fiscal year.

During the current fiscal year, undesignated fund balance in the General Fund increased from \$17.1 million to \$22.2 million. The fiscal year 2005 operating budget includes a planned use of General Fund fund balance in the amount of \$1.2 million. This planned use represents payments to the Public Schools - Component Unit for the sharing of excess revenues from fiscal year 2003 operating results. No real estate tax rate increase was recommended. Stormwater rates, as well as water rates for the Public Utilities Fund, remained stable.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2004

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, 2004

	Governmental Activities	Business - Type Activities	Total Primary Government	Discretely Presented Component Units	
				Public Schools	Others
ASSETS					
Cash and temporary investments (note 2)	\$ 114,355,079	20,631,940	134,987,019	24,029,506	5,562,588
Receivables, net of allowance for uncollectible amounts (note 3)	38,283,574	8,955,712	47,239,286	13,936,471	38,322,594
Due from component units, net of allowance for uncollectibles (note 7)	622,000	-	622,000	-	-
Internal balances (note 1)	742,596	(742,596)	-	-	-
Inventories	238,855	507,681	746,536	1,060,065	6,052,718
Prepaid expense	727,864	35,472	763,336	693,620	5,000
Restricted assets (note 2):					
Cash and temporary investments with trustee	4,352,290	1,561,245	5,913,535	-	-
Cash restricted for debt service	-	1,909,516	1,909,516	-	-
Cash restricted for debt service with trustee	-	3,890,039	3,890,039	-	-
Cash with State Set-Aside (note 6)	127,358	-	127,358	-	-
Capital construction:					
Cash and temporary investments	42,641,080	64,228,549	106,869,629	8,928,860	-
Cash and temporary investments with trustee	14,682,203	2,987,592	17,669,795	-	-
Capital assets (notes 4, 6, and 9):					
Land	258,090,449	17,194,830	275,285,279	16,076,801	917,849
Construction in progress	40,681,141	48,807,470	89,488,611	904,729	-
Buildings	504,461,737	4,215,589	508,677,326	34,663,282	1,246,523
Improvements other than buildings	24,699,949	1,322,473	26,022,422	2,433,648	13,491,634
Equipment and vehicles	68,797,490	8,855,893	77,653,383	47,382,983	749,962
Infrastructure	936,734,934	467,186,528	1,403,921,462	-	-
Accumulated depreciation	(844,102,075)	(118,999,699)	(963,101,774)	(33,834,042)	(5,715,310)
Other assets	1,348,762	1,186,320	2,535,082	-	55,032
Total assets	\$ 1,207,485,286	533,734,554	1,741,219,840	116,275,923	60,688,590
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable and accrued expenses (note 3)	\$ 16,011,682	5,060,403	21,072,085	28,590,860	1,020,270
Deferred revenue	3,739,601	2,304,479	6,044,080	30,586	59,105
Matured bonds payable (note 6)	1,855,000	-	1,855,000	-	-
Due to primary government (note 7)	-	-	-	-	2,885,502
Long-term liabilities (notes 6, 9, and 10):					
Due within one year	43,670,790	6,310,526	49,981,316	5,748,231	2,605,000
Due in more than one year	441,169,840	230,284,066	671,453,906	27,151,276	39,340,047
Total liabilities	506,446,913	243,959,474	750,406,387	61,520,953	45,909,924
Net assets					
Invested in capital assets, net of related debt	563,288,318	228,068,375	791,356,693	62,024,995	10,755,438
Restricted for:					
Capital projects	11,735,419	2,636,724	14,372,143	8,533,984	-
Debt service	15,699,358	6,789,536	22,488,894	-	-
Other purposes:					
Expendable	5,947,315	51,110,767	57,058,082	1,866,409	-
Nonexpendable	12,795	-	12,795	-	-
Unrestricted	104,355,168	1,169,678	105,524,846	(17,670,418)	4,023,228
Total net assets	701,038,373	289,775,080	990,813,453	54,754,970	14,778,666
Total liabilities and net assets	\$ 1,207,485,286	533,734,554	1,741,219,840	116,275,923	60,688,590

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

CITY OF CHESAPEAKE, VIRGINIA
 Statement of Activities
 Year Ended June 30, 2004

Functions/Program:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets					
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Discreetly Presented			
					Governmental Activities	Business-type Activities	Total	Public Schools	Others	
PRIMARY GOVERNMENT										
Governmental activities:										
General government	\$ 107,595,440	12,610,106	32,797,995	221,433	(61,965,906)	-	(61,965,906)	-	-	-
Public safety	73,556,936	4,487,073	9,001,756	-	(60,068,107)	-	(60,068,107)	-	-	-
Public works	36,681,770	1,266,418	21,056,373	18,048,831	3,689,852	-	3,689,852	-	-	-
Parks	8,871,362	133,233	235,646	-	(8,502,483)	-	(8,502,483)	-	-	-
Public welfare	33,963,274	2,235,788	24,098,785	24,115	(7,604,586)	-	(7,604,586)	-	-	-
Education	134,528,877	-	1,318,184	250,000	(132,960,693)	-	(132,960,693)	-	-	-
Interest on long term debt	21,435,242	-	-	-	(21,435,242)	-	(21,435,242)	-	-	-
Depreciation and amortization - net unallocated portion (note 4)	20,634,855	-	-	-	(20,634,855)	-	(20,634,855)	-	-	-
Total governmental activities	437,267,756	20,732,618	88,508,739	18,544,379	(309,482,020)	-	(309,482,020)	-	-	-
Business-type activities:										
Public Utilities	38,593,511	39,898,644	836,217	5,959,652	-	8,101,002	8,101,002	-	-	-
Chesapeake Expressway	8,730,072	6,678,718	160,945	-	(1,890,409)	-	(1,890,409)	-	-	-
Stormwater Management	3,391,274	4,532,744	-	-	1,141,470	-	1,141,470	-	-	-
Northwest River Park	83,006	102,271	-	-	19,265	-	19,265	-	-	-
Jordan Bridge	1,260,395	1,089,250	-	-	(171,145)	-	(171,145)	-	-	-
Recreation	537,006	570,169	-	-	33,163	-	33,163	-	-	-
Total business-type activities	52,595,264	52,871,796	997,162	5,959,652	7,233,346	-	7,233,346	-	-	-
Total primary government	\$ 489,863,020	73,604,414	89,505,901	24,504,031	(309,482,020)	7,233,346	(302,248,674)	-	-	-
COMPONENT UNITS										
Public Schools	\$ 317,127,950	7,536,856	48,133,570	2,216,117	-	-	-	(259,241,407)	-	-
Chesapeake Mosquito Control Commission	3,593,597	3,814,844	-	-	-	-	-	221,247	-	-
Industrial Development Authority	3,147,811	-	3,036,838	-	-	-	-	-	(110,973)	-
Chesapeake Port Authority	400	-	21	-	-	-	-	-	(379)	-
Chesapeake Airport Authority	1,173,685	273,697	738,144	-	-	-	-	-	(161,844)	-
Total component units	\$ 325,043,443	7,810,553	55,723,417	2,216,117	-	-	-	(259,241,407)	(51,949)	-
General revenues:										
Taxes:										
Property taxes, levied for general purposes					\$ 205,187,258	-	205,187,258	-	-	-
Local sales and use taxes					29,744,620	-	29,744,620	-	-	-
Business license taxes					19,351,581	-	19,351,581	-	-	-
Consumer utility taxes					19,820,181	-	19,820,181	-	-	-
Other taxes					33,974,457	-	33,974,457	-	-	-
Payment from City					-	-	-	126,876,092	-	-
Grants and contributions not restricted to specific programs					29,354,088	-	29,354,088	132,018,587	-	-
Unrestricted investment earnings					1,507,168	61,521	1,568,689	9,668	-	-
Miscellaneous					255,430	-	255,430	1,700,426	-	-
Transfers					402,772	(402,772)	-	-	-	-
Total general revenues and transfers					339,397,555	(341,251)	339,056,304	260,604,773	-	-
Change in net assets					29,915,535	6,892,095	36,807,630	1,363,366	(51,949)	-
Net assets - beginning					671,122,838	282,882,985	954,005,823	53,391,604	14,830,615	-
Net assets - ending					\$ 701,038,373	289,775,080	990,813,453	54,754,970	14,778,666	-

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, 2004

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and temporary investments	\$ 60,612,078	21,862,762	-	10,055,608	92,530,448
Intergovernmental revenues due from (note 3):					
Commonwealth of Virginia:					
Local sales tax	2,584,268	-	-	-	2,584,268
Shared expenditures	742,116	-	-	-	742,116
State categorical aid	165,069	-	-	1,816,895	1,981,964
Street construction and maintenance	5,200,633	-	-	-	5,200,633
Personal property tax relief act	7,899,049	-	-	-	7,899,049
Other	576,420	-	1,093,520	-	1,669,940
Federal government	84,348	-	135,114	1,853,978	2,073,440
Receivables (note 3):					
Property taxes	14,003,366	-	-	-	14,003,366
Accounts receivable	225,040	-	-	1,029,860	1,254,900
Utility taxes	1,529,814	-	-	-	1,529,814
Interest	164,182	80,925	30,693	-	275,800
Fines	213,647	-	-	-	213,647
Ambulance fees	2,559,276	-	-	-	2,559,276
Restaurant and food tax	1,369,382	-	-	-	1,369,382
Other	1,487,320	-	-	20,000	1,507,320
Allowance for uncollectible amounts	(6,806,011)	-	-	-	(6,806,011)
Due from other funds (note 8)	1,345,923	386,298	-	-	1,732,221
Restricted assets:					
Cash and temporary investments with trustee	-	4,352,290	-	-	4,352,290
Cash with State Set-Aside (note 6)	127,358	-	-	-	127,358
Capital construction:					
Cash and temporary investments	-	-	41,336,490	1,304,590	42,641,080
Cash and temporary investments with trustee	-	-	9,908,741	4,773,462	14,682,203
Advances to component units (note 7):					
Industrial Development Authority	1,319,095	-	-	-	1,319,095
Chesapeake Airport Authority	232,000	390,000	-	-	622,000
Chesapeake Port Authority	944,407	-	-	-	944,407
Allowance for doubtful accounts	(2,263,502)	-	-	-	(2,263,502)
Total assets	\$ 94,315,278	27,072,275	52,504,558	20,854,393	194,746,504

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule C, Continued

Balance Sheet
 Governmental Funds
 June 30, 2004

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable (note 3)	\$ 3,157,511	-	-	1,437,145	4,594,656
Deposits (note 3)	3,115,697	-	-	20,736	3,136,433
Accrued expenditures (note 3)	4,546,911	104,867	-	42,420	4,694,198
Deferred revenues (note 5)	12,004,845	-	-	316,107	12,320,952
Payables from restricted assets:					
Matured certificates of participation payable	-	1,855,000	-	-	1,855,000
Matured interest payable (note 3)	-	158,593	-	-	158,593
Construction projects payable (note 3)	-	-	1,496,228	-	1,496,228
Due to other funds (note 8)	-	-	386,298	1,345,923	1,732,221
Total liabilities	22,824,964	2,118,460	1,882,526	3,162,331	29,988,281
Fund balances					
Reserved (note 11):					
Expendable	7,540,096	2,855,454	31,865,448	1,648,341	43,909,339
Nonexpendable	-	-	-	12,795	12,795
Unreserved:					
Designated for debt service	-	22,098,361	-	-	22,098,361
Designated for construction projects	-	-	18,756,584	-	18,756,584
Designated for cash flow emergencies (note 1)	24,111,563	-	-	-	24,111,563
Designated for operating emergencies (note 1)	16,785,980	-	-	-	16,785,980
Designated	834,642	-	-	-	834,642
Designated - Special Revenue Funds	-	-	-	6,687,149	6,687,149
Undesignated	22,218,033	-	-	-	22,218,033
Undesignated - Special Revenue Funds	-	-	-	9,205,815	9,205,815
Undesignated - Permanent Funds	-	-	-	137,962	137,962
Total fund balances	71,490,314	24,953,815	50,622,032	17,692,062	164,758,223
Total liabilities and fund balances	\$ 94,315,278	27,072,275	52,504,558	20,854,393	194,746,504

(Continued)

Balance Sheet
 Governmental Funds
 June 30, 2004

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	\$ 164,758,223
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 \$22,027,599 associated with the internal service funds as indicated below.	967,336,026
Governmental funds report the effect of issuance costs when the debt is issued. These costs are deferred in the Statement of Net Assets.	1,348,762
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.	11,697,048
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 \$742,596 as noted on Schedule E.	
Capital assets	22,027,599
Long-term debt	(27,794,928)
Other assets and liabilities	23,081,058
	17,313,729
Unmatured interest payable reported in governmental activities will not be paid with current financial resources, and therefore, is not reported in the funds.	(4,369,713)
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 \$27,794,928 associated with the internal service funds as indicated above.	(457,045,702)
Net assets of governmental activities	\$ 701,038,373

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, 2004

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
General property taxes	\$ 203,503,495	-	-	-	203,503,495
Other local taxes	97,909,519	-	-	4,981,320	102,890,839
Licenses, permits, and fees	2,495,770	-	-	-	2,495,770
Fines and forfeitures	2,440,972	-	-	-	2,440,972
Investment income	286,011	167,165	819,661	90,537	1,363,374
Revenues from use of property	312,407	115,765	-	-	428,172
Charges for services	7,265,007	-	-	4,761,353	12,026,360
Miscellaneous local revenues	393,757	-	-	1,147	394,904
Recovered costs	314,650	-	-	3,773,249	4,087,899
Program income	-	-	-	284,699	284,699
Revenues from local developers	-	-	1,011,455	-	1,011,455
Intergovernmental revenues:					
Commonwealth of Virginia	72,962,758	221,433	2,401,840	13,961,525	89,547,556
Federal government	13,166,950	-	101,289	15,745,084	29,013,323
Chesapeake Public Schools	268,762	1,049,422	-	-	1,318,184
Total revenues	401,320,058	1,553,785	4,334,245	43,598,914	450,807,002
EXPENDITURES					
Current:					
General government	94,219,258	-	-	11,214,760	105,434,018
Public safety	61,038,006	-	-	4,453,768	65,491,774
Public works	38,461,949	-	-	-	38,461,949
Parks	8,458,468	-	-	282,734	8,741,202
Public welfare	-	-	-	33,987,999	33,987,999
Education - Payments to Public Schools	127,774,672	-	-	-	127,774,672
Capital outlay	-	-	14,625,637	973,784	15,599,421
Debt service	2,326,937	44,643,767	-	-	46,970,704
Total expenditures	332,279,290	44,643,767	14,625,637	50,913,045	442,461,739
Excess (deficiency) of revenues over (under) expenditures	\$ 69,040,768	(43,089,982)	(10,291,392)	(7,314,131)	8,345,263

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule D, Continued

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2004

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
OTHER FINANCING SOURCES (USES)					
Transfers from other funds (note 8)	\$ 526,675	43,396,401	6,266,150	15,668,759	65,857,985
Lease revenue bond issued (note 6)	-	-	-	4,940,000	4,940,000
Section 108 loan funds (note 6)	-	-	-	720,000	720,000
General obligation refunding bonds issued (note 6)	-	62,920,000	-	-	62,920,000
Transfers to other funds (note 8)	(60,521,850)	(800,740)	(439,864)	(5,136,601)	(66,899,055)
Payment to refunded bond escrow agent (note 6)	-	(70,300,043)	-	-	(70,300,043)
Premiums on refunding bonds issued (note 6)	-	7,794,630	-	-	7,794,630
Total other financing sources (uses)	(59,995,175)	43,010,248	5,826,286	16,192,158	5,033,517
Net change in fund balances	9,045,593	(79,734)	(4,465,106)	8,878,027	13,378,780
Fund balance - beginning	62,444,721	25,033,549	55,087,138	8,814,035	151,379,443
Fund balance - ending	\$ 71,490,314	24,953,815	50,622,032	17,692,062	164,758,223

(Continued)

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2004

**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 \$ 13,378,780

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 gains 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	(32,488,587)	
Capital outlay expenditures	17,769,449	
Donated assets	14,558,362	
Noncapitalizable assets related to closed projects	(5,231,382)	
Loss on disposal	(329,916)	
	(5,722,074)	(5,722,074)

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. 1,790,623

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)	(76,053,476)	
Principal repayments	30,231,942	
Payment to escrow agent for refunding	70,300,043	
	24,478,509	24,478,509

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	(199,525)	
Compensated absences	(1,279,446)	
Net pension obligation	43,955	
	(1,435,016)	(1,435,016)

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. (2,575,287)

Change in net assets of governmental activities \$ 29,915,535

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

Schedule E

Statement of Net Assets
 Proprietary Funds
 June 30, 2004

	Enterprise Funds					Total	Internal Service Funds
	Public Utilities	Chesapeake Expressway	Stormwater Management	Other Enterprise Funds			
ASSETS							
Current assets:							
Cash and temporary investments	\$ 15,656,884	214,046	3,450,692	1,310,318	20,631,940	21,824,631	
Receivables (note 3):							
Accounts	8,203,032	104,807	1,376,025	18,925	9,702,789	197,912	
Interest	65,703	-	13,065	349	79,117	26,758	
Allowance for uncollectible amounts	(726,285)	-	(99,909)	-	(826,194)	-	
Inventory of materials and supplies	496,906	-	-	10,775	507,681	238,855	
Prepaid expenses	34,554	-	-	918	35,472	727,864	
Total current assets	23,730,794	318,853	4,739,873	1,341,285	30,130,805	23,016,020	
Noncurrent assets:							
Restricted assets:							
Cash and temporary investments with trustee	-	1,561,245	-	-	1,561,245	-	
Cash restricted for debt service	1,909,516	-	-	-	1,909,516	-	
Cash restricted for debt service with trustee	-	3,890,039	-	-	3,890,039	-	
Capital construction:							
Cash and temporary investments	59,323,573	-	4,904,976	-	64,228,549	-	
Cash and temporary investments with trustee	-	2,987,592	-	-	2,987,592	-	
Total restricted assets	61,233,089	8,438,876	4,904,976	-	74,576,941	-	
Capital assets (note 4):							
Land	5,633,966	11,004,996	172,174	383,694	17,194,830	-	
Construction in progress	43,108,348	617,620	5,081,502	-	48,807,470	-	
Buildings	73,598	4,111,545	-	30,446	4,215,589	138,579	
Improvements other than buildings	1,248,680	-	-	73,793	1,322,473	405,938	
Equipment and vehicles	2,956,366	5,052,399	278,451	568,677	8,855,893	57,876,883	
Infrastructure	378,603,899	77,717,456	5,814,729	5,050,444	467,186,528	-	
Less accumulated depreciation	(101,154,114)	(13,861,245)	(591,447)	(3,392,893)	(118,999,699)	(36,393,801)	
Total capital assets, net of accumulated depreciation	330,470,743	84,642,771	10,755,409	2,714,161	428,583,084	22,027,599	
Other assets	1,006,025	180,295	-	-	1,186,320	-	
Total noncurrent assets	392,709,857	93,261,942	15,660,385	2,714,161	504,346,345	22,027,599	
Total assets	\$ 416,440,651	93,580,795	20,400,258	4,055,446	534,477,150	45,043,619	

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Statement of Net Assets
 Proprietary Funds
 June 30, 2004

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)	\$ 831,435	23,420	37,305	58,356	950,516	677,558	
Accrued expenses and other liabilities (note 3)	663,380	1,009,664	19,392	13,196	1,705,632	-	
Deposits (note 3)	390,447	-	-	-	390,447	-	
Deferred revenues (note 5)	-	-	2,256,570	47,909	2,304,479	-	
Construction projects payable (note 3)	1,986,412	59	27,337	-	2,013,808	-	
Current portion of long-term debt (note 6)	4,945,323	869,795	-	-	5,815,118	-	
Current portion of obligations under capital leases (note 6)	-	-	-	-	-	2,551,501	
Current portion of notes payable (note 6)	115,000	-	-	-	115,000	73,271	
Current portion of accrued vacation, sick pay, and overtime leave (note 6)	297,430	23,462	37,710	21,806	380,408	179,062	
Current portion of liability for self-insurance losses (notes 6 and 15)	-	-	-	-	-	3,406,382	
Total current liabilities	9,229,427	1,926,400	2,378,314	141,267	13,675,408	6,887,774	
Noncurrent liabilities:							
General obligation bonds (note 6)	131,479,604	-	-	-	131,479,604	-	
Revenue bonds (note 6)	7,200,000	21,378,469	-	-	28,578,469	-	
Accrual for arbitrage rebate (note 6)	37,124	-	-	-	37,124	-	
Due to Commonwealth of Virginia (note 6)	-	69,084,240	-	-	69,084,240	-	
Obligations under capital leases (note 6)	-	-	-	-	-	5,346,195	
Notes payable (note 6)	575,000	-	-	-	575,000	48,578	
Accrued vacation, sick pay, and overtime leave (note 6)	414,125	32,667	52,497	30,340	529,629	249,320	
Liability for self-insurance losses (notes 6 and 15)	-	-	-	-	-	15,940,619	
Total noncurrent liabilities	139,705,853	90,495,376	52,497	30,340	230,284,066	21,584,712	
Total liabilities	148,935,280	92,421,776	2,430,811	171,607	243,959,474	28,472,486	
Net Assets							
Invested in capital assets, net of related debt	218,849,875	(4,251,070)	10,755,409	2,714,161	228,068,375	14,751,000	
Restricted for:							
Capital projects	500,000	2,136,724	-	-	2,636,724	-	
Debt service	4,504,997	2,284,539	-	-	6,789,536	-	
Other purposes	43,650,499	988,826	7,214,038	-	51,853,363	-	
Unrestricted	-	-	-	1,169,678	1,169,678	1,820,133	
Total net assets	267,505,371	1,159,019	17,969,447	3,883,839	290,517,676	16,571,133	
Total liabilities and net assets	\$ 416,440,651	93,580,795	20,400,258	4,055,446	534,477,150	45,043,619	

Net assets of enterprise funds, Schedule E
 Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds
 Net assets of business-type activities, Schedule A

\$ 290,517,676
 (742,596)
 \$ 289,775,080

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

CITY OF CHESAPEAKE, VIRGINIA

Schedule F

Statement of Revenues, Expenses, and Changes in Fund Net Assets
 Proprietary Funds
 Year Ended June 30, 2004

	Enterprise Funds					Total	Internal Service Funds
	Public Utilities	Chesapeake Expressway	Stormwater Management	Other Enterprise Funds			
OPERATING REVENUES							
Charges for services:							
Sale of water	\$ 25,607,376	-	-	-	-	25,607,376	-
Billings to departments	-	-	-	-	-	-	21,717,490
Sewer service charges	7,751,471	-	-	-	-	7,751,471	-
Stormwater management fees	-	-	4,532,744	-	-	4,532,744	-
Tolls and tickets	-	6,638,992	-	1,087,960	-	7,726,952	-
Rental fees	1,013,000	-	-	-	-	1,013,000	-
Connection fees	4,605,321	-	-	-	-	4,605,321	-
Recreation fees	-	-	-	672,438	-	672,438	-
Other	921,476	39,726	-	1,292	-	962,494	1,370
Total operating revenues	39,898,644	6,678,718	4,532,744	1,761,690	-	52,871,796	21,718,860
OPERATING EXPENSES							
Cost of materials billed	-	-	-	-	-	-	4,081,393
Purchases for resale	9,571,297	-	-	30,133	-	9,601,430	-
Water production	4,663,781	-	-	-	-	4,663,781	-
Sewer maintenance and operation	3,758,164	-	-	-	-	3,758,164	-
Water maintenance and operation	1,899,383	-	-	-	-	1,899,383	-
Customer service	1,085,625	-	-	-	-	1,085,625	-
General and administrative	1,367,480	402,937	718,089	-	-	2,488,506	-
Technical services	1,152,173	-	365,572	-	-	1,517,745	-
Other salaries and wages	-	992,788	1,394,694	597,658	-	2,985,140	4,255,760
Other fringe benefits	-	304,788	495,207	185,683	-	985,678	1,256,482
Self-insurance losses	-	-	-	-	-	-	4,536,068
Indemnity and medical claims	-	-	-	-	-	-	1,279,269
Other repairs and supplies	-	57,913	123,186	123,084	-	304,183	3,216,709
Equipment rental	-	-	-	-	-	-	285,322
Other contractual services	-	389,148	-	276	-	389,424	507,880
Depreciation and amortization	7,734,703	4,376,188	166,148	206,435	-	12,483,474	4,292,121
Insurance premiums	-	-	-	-	-	-	1,182,387

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule F, Continued

Statement of Revenues, Expenses, and Changes in Fund Net Assets
 Proprietary Funds
 Year Ended June 30, 2004

	Enterprise Funds					Total	Internal Service Funds
	Public Utilities	Chesapeake Expressway	Stormwater Management	Other Enterprise Funds			
OPERATING EXPENSES, continued							
Recreation	-	-	-	284,113	-	284,113	-
Meter reading services	195,550	-	-	-	-	195,550	-
Other	4,449	26,240	1,149	453,025	484,863	886,306	886,306
Total operating expenses	31,432,605	6,550,002	3,264,045	1,880,407	43,127,059	25,779,697	25,779,697
Operating income (loss)	8,466,039	128,716	1,268,699	(118,717)	9,744,737	(4,060,837)	(4,060,837)
NONOPERATING REVENUES (EXPENSES)							
Investment income	836,217	160,945	46,958	14,563	1,058,683	112,749	112,749
Interest expense	(6,905,231)	(2,180,070)	-	-	(9,085,301)	(272,584)	(272,584)
Loss on sale of equipment	(1,216)	-	-	-	(1,216)	(180,145)	(180,145)
Total nonoperating revenues (expenses)	(6,070,230)	(2,019,125)	46,958	14,563	(8,027,834)	(339,980)	(339,980)
Income (loss) before transfers and contributions	2,395,809	(1,890,409)	1,315,657	(104,154)	1,716,903	(4,400,817)	(4,400,817)
Transfers in (note 8)	-	-	-	-	-	1,509,532	1,509,532
Transfers out (note 8)	(1,241)	(371,559)	(1,864)	(28,108)	(402,772)	(65,690)	(65,690)
Capital contributions	5,959,652	-	-	-	5,959,652	-	-
Increase (decrease) in net assets	8,354,220	(2,261,968)	1,313,793	(132,262)	7,273,783	(2,956,975)	(2,956,975)
Total net assets - beginning	259,151,151	3,420,987	16,655,654	4,016,101	283,243,893	19,528,108	19,528,108
Total net assets - ending	\$ 267,505,371	1,159,019	17,969,447	3,883,839	290,517,676	16,571,133	16,571,133

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

\$ 7,273,783
 (381,688)
6,892,095

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, 2004

	Enterprise Funds					Internal Service Funds
	Public Utilities	Chesapeake Expressway	Stormwater Management	Other Enterprise Funds	Total	
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 39,547,659	6,729,509	4,556,546	1,759,033	52,592,747	21,603,970
Payments to suppliers	(17,508,434)	(943,112)	(1,214,891)	(1,112,759)	(20,779,196)	(12,544,689)
Payments to employees	(6,133,090)	(1,294,896)	(1,860,877)	(785,374)	(10,074,237)	(5,452,506)
Net cash provided by (used in) operating activities	15,906,135	4,491,501	1,480,778	(139,100)	21,739,314	3,606,775
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in	-	-	-	-	-	48,595
Transfers out	(1,241)	(371,559)	(1,864)	(15,000)	(389,664)	(54,383)
Repayments of advances from the General Fund	-	-	-	-	-	(297,854)
Repayments of obligations under capital leases for equipment not capitalized	-	-	-	-	-	(141,755)
Net cash used in noncapital financing activities	(1,241)	(371,559)	(1,864)	(15,000)	(389,664)	(445,397)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Refunding bonds issued	32,590,000	-	-	-	32,590,000	-
Premium on issuance of refunding bonds	3,766,960	-	-	-	3,766,960	-
Proceeds from Commonwealth of Virginia	-	411,767	-	-	411,767	-
Transfers in	-	-	-	-	-	1,460,937
Payment to escrow agent for refunded bonds (note 6)	(36,138,985)	-	-	-	(36,138,985)	-
Payment of bond issuance costs	(205,176)	-	-	-	(205,176)	-
Acquisition of capital assets	(17,937,290)	(623,740)	(869,957)	(85,054)	(19,516,041)	(3,553,717)
Increase (decrease) in construction projects payable	1,759,165	-	(78,458)	-	1,680,707	-
Interest paid	(6,799,188)	(2,175,919)	-	-	(8,975,107)	(272,584)
Repayments of obligations under capital leases	-	-	-	-	-	(1,803,961)
Repayments of notes payable	(118,075)	-	-	-	(118,075)	(71,216)
Repayments of long-term debt	(4,647,794)	(895,045)	-	-	(5,542,839)	-
Adjustment in arbitrage liability	(451)	-	-	-	(451)	-
Other debt payments	-	(4,151)	-	-	(4,151)	-
Net cash used in capital and related financing activities	(27,730,834)	(3,287,088)	(948,415)	(85,054)	(32,051,391)	(4,240,541)

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Statement of Cash Flows
 Proprietary Funds
 Year Ended June 30, 2004

Schedule G, Continued

	Enterprise Funds					Internal Service Funds
	Public Utilities	Chesapeake Expressway	Stormwater Management	Other Enterprise Funds	Total	
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment income	\$ 849,549	213,823	55,359	14,214	1,132,945	98,660
Transfers out	-	-	-	(13,108)	(13,108)	(11,307)
Net cash provided by (used in) investing activities	849,549	213,823	55,359	1,106	1,119,837	87,353
Net increase (decrease) in cash and temporary investments	(10,976,391)	1,046,677	585,858	(238,048)	(9,581,904)	(991,810)
Cash and temporary investments beginning of year	87,866,364	7,606,245	7,769,810	1,548,366	104,790,785	22,816,441
Cash and temporary investments end of year	\$ 76,889,973	8,652,922	8,355,668	1,310,318	95,208,881	21,824,631
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	\$ 8,466,039	128,716	1,268,699	(118,717)	9,744,737	(4,060,837)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization	7,734,703	4,376,188	166,148	206,435	12,483,474	4,292,121
Loss due to obsolescence	-	-	-	-	-	83,941
Change in assets and liabilities increasing (decreasing) cash and temporary investments:						
Receivables	(514,796)	50,791	(5,060)	(8,295)	(477,360)	(114,890)
Inventory of materials and supplies	(8,463)	-	-	(4,042)	(12,505)	2,692
Prepaid expenses and other assets	188	-	-	(918)	(730)	17,060
Accounts payable	(1,399)	(66,874)	(6,895)	(217,168)	(292,336)	(272,807)
Deferred revenues	-	-	28,862	5,638	34,500	-
Deposits	163,811	-	-	-	163,811	-
Accrued expenses and other liabilities	1,875	(5,718)	5,915	5,132	7,204	2,720,573
Accrued vacation, sick pay, and overtime leave	64,177	8,398	23,109	(7,165)	88,519	54,222
Obligations under capital leases for equipment not capitalized	-	-	-	-	-	884,700
Total adjustments	7,440,096	4,362,785	2,12,079	(20,383)	11,994,577	7,667,612
Net cash provided by (used in) operating activities	\$ 15,906,135	4,491,501	1,480,778	(139,100)	21,739,314	3,606,775
Supplemental information on significant noncash transactions:						
Public Utilities Fund:						
Contributions of capital assets	\$ 5,959,652					
Internal Service Funds:						
Borrowing under capital leases	\$ 4,200,399					

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, 2004

		Special Welfare
Assets		
Cash and temporary investments	\$	12,314
Total assets	\$	12,314
Liabilities		
Due to children under foster care	\$	12,314
Total liabilities	\$	12,314

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.

Industrial Development Authority (IDA) – To account for the operation of the IDA 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, 2004

	Governmental Activities				Business-type Activities			Total
	Chesapeake		Industrial Development Authority	Chesapeake Port Authority		Chesapeake Airport Authority		
	Mosquito Control Commission							
ASSETS								
Cash and temporary investments (note 2)	\$	3,404,048	1,737,820	4,073	416,647		5,562,588	
Receivables, net of allowance for uncollectible amounts		-	38,304,939	-	17,655		38,322,594	
Inventories		246,296	5,806,422	-	-		6,052,718	
Prepaid items		5,000	-	-	-		5,000	
Capital assets:								
Land		116,000	-	-	801,849		917,849	
Buildings		1,246,523	-	-	-		1,246,523	
Improvements other than buildings		14,897	-	-	13,476,737		13,491,634	
Equipment and vehicles		590,281	-	-	159,681		749,962	
Accumulated depreciation		(203,282)	-	-	(5,512,028)		(5,715,310)	
Other assets		-	-	-	55,032		55,032	
Total assets	\$	5,419,763	45,849,181	4,073	9,415,573		60,688,590	

LIABILITIES AND NET ASSETS

Liabilities							
Accounts payable and accrued expenses (note 3)	\$	54,701	851,372	-	114,197		1,020,270
Deferred revenue		-	53,863	-	5,242		59,105
Due to primary government (note 7)		-	1,319,095	944,407	622,000		2,885,502
Long-term liabilities (note 6):							
Due within one year		-	2,505,000	-	100,000		2,605,000
Due in more than one year		-	37,280,047	-	2,060,000		39,340,047
Total liabilities		54,701	42,009,377	944,407	2,901,439		45,909,924

Net assets

Invested in capital assets, net of related debt		1,764,419	2,827,280	-	6,163,739		10,755,438
Unrestricted		3,600,643	1,012,524	(940,334)	350,395		4,023,228
Total net assets		5,365,062	3,839,804	(940,334)	6,514,134		14,778,666
Total liabilities and net assets	\$	5,419,763	45,849,181	4,073	9,415,573		60,688,590

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

CITY OF CHESAPEAKE, VIRGINIA

Statement of Activities
 Other Discretely Presented Component Units
 Year Ended June 30, 2004

Schedule J

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Charges for Services	Operating Grants and Contributions	Chesapeake Mosquito Control Commission	Industrial Development Authority	Chesapeake Port Authority	Chesapeake Airport Authority	Total
Governmental Type Activities								
Chesapeake Mosquito Control Commission	\$ 3,593,597	-	3,814,844	221,247	-	-	-	221,247
Business-type Activities								
Industrial Development Authority	3,147,811	-	3,036,838	-	(110,973)	-	-	(110,973)
Chesapeake Port Authority	400	-	21	-	(379)	-	-	(379)
Chesapeake Airport Authority	1,173,685	273,697	738,144	-	-	-	(161,844)	(161,844)
Total component units	\$ 7,915,493	273,697	7,589,847	221,247	(110,973)	(379)	(161,844)	(51,949)
Change in net assets				\$ 221,247	(110,973)	(379)	(161,844)	(51,949)
Net assets - beginning				5,143,815	3,950,777	(939,955)	6,675,978	14,830,615
Net assets - ending				\$ 5,365,062	3,839,804	(940,334)	6,514,134	14,778,666

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Notes to Basic Financial Statements



CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(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 for 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.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(1) Continued

- € The Industrial Development Authority of the City of Chesapeake (the IDA) was established under the Industrial Development and Revenue Bond Act, *Code of Virginia*. The IDA 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 IDA. The IDA 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 IDA. Separate audited financial statements are available for the City of Chesapeake Industrial Development Authority through the City's Department of Economic Development at 501 Independence Parkway, Suite 200, Chesapeake, Virginia 23320. Effective July 1, 2004, the name of the IDA was changed through legislative action to Economic Development Authority.

- € 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.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(1) Continued

€ The Chesapeake Mosquito Control Commission (the Commission) manages the City's insecticide program. Prior to January 2003, there were five separate Mosquito Control Commissions serving five of the City's six boroughs through representation from City Council-appointed members. However, in August 2002 City Council approved the consolidation of the five Mosquito Control Commissions into one Commission serving the entire City. Under the reorganization plan approved by City Council in November 2002, the Commission consists of eleven commissioners during the transition period, with a reduction to seven commissioners as terms expire. This consolidation became effective in January 2003. 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. In December 2003, 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.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(1) Continued

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

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.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(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.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(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, 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.

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.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(1) Continued

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 or agencies of the City on a cost-reimbursement basis.

Nonmajor 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.

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.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements

June 30, 2004

(1) Continued

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.

Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" or "advances to/from other funds" in the fund statements or as "internal balances" in the Statement of Net Assets. All residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements

June 30, 2004

(1) Continued

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 IDA 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, 2003, less an allowance for uncollectible amounts and taxes not collected within 45 days after year end. The tax rate for 2004 was \$1.26 per \$100 of assessed value with an additional \$.02 per \$100 of assessed value for mosquito control services.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(1) Continued

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, 2004 less an allowance for uncollectible amounts and taxes not collected within 45 days after year end. The tax rate for 2004 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 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, 2004.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(1) Continued

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:

<u>Capital Assets</u>	<u>Useful Lives</u>
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 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.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements

June 30, 2004

(1) Continued

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. In fiscal year 2002, the City Council voted to cap this 5% designated fund balance for operating emergencies at the June 30, 2001 balance of \$16,505,980. This reserve was increased by \$280,000 during fiscal year 2004 to \$16,785,980.

(2) Deposits and Investments

Deposits

At year end, the carrying value of the City's pooled deposits with banks and savings and loans was \$45,651,173 and the bank balance was \$56,397,017. Of the bank balance, \$900,000 was covered by Federal Depositor Insurance Corporation (the FDIC). The bank balances exceeding those covered by FDIC are protected under the provisions of the Virginia Security for Public Deposits Act (the Act). Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(2) Continued

Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans. Of the bank balance, \$1,930,468 was under-collateralized by 13.6% of the requirement at June 30, 2004. These funds were fully collateralized at July 16, 2004. Both the carrying value and the bank balance of deposits shown as restricted cash at June 30, 2004 is \$10,804,402. All deposits are held by financial institutions in the City's name except for \$127,358 of restricted cash, which is being held by the Commonwealth of Virginia.

Investments

Investments by type at year end are shown below:

	Category			Carrying Amount
	1	2	3	
Pooled investments:				
Corporate notes	\$ 7,938,934	-	-	7,938,934
U.S. Government securities	56,389,425	-	-	56,389,425
Money market deposit	551,326	-	-	551,326
Bankers acceptance	3,710,885	-	-	3,710,885
Commercial paper	88,656,348	-	-	88,656,348
	157,246,918	-	-	157,246,918
Investments not subject to categorization:				
Virginia State Non-Arbitrage Program				59,580,575
Local Government Investment Pool				15,330,786
Full Flex Repurchase Agreement - U. S. Bank Custodian				673,616
Evergreen/U.S. Government Portfolio				353,235
Total pooled investments				\$ 233,185,130
Restricted investments:				
U.S. Government securities				73,462
Money market funds				18,027,452
Total restricted investments				\$ 18,100,914
Total investments				\$ 251,286,044

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements

June 30, 2004

(2) Continued

The City's investments are categorized above to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered and for which the securities are held by the City or its safekeeping agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter-party's trust department or safekeeping agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter-party's trust department or safekeeping agent but not in the City's name.

The 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 not subject to categorization as to assumed risks because, in the aggregate, they are considered pooled investments in nature and are not evidenced by securities that exist in physical or book entry form. The Full Flex Repurchase Agreement, a nonparticipating guaranteed investment contract is not considered an investment subject to credit risk as the underlying securities are held by the buyer-lender.

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, and an average maturity of ninety days or less and are not subject to categorization.

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 LGIP.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(2) Continued*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 \$2,158,540, have been excluded because categorization information is not available.

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	\$	45,651,173
Restricted deposits		10,804,402
Investments		251,286,044
Other component units		2,158,540
Total deposits and investments reported above	\$	309,900,159
Per Schedules A and H:		
Cash and temporary investments	\$	164,591,427
Cash and temporary investments with trustee		5,913,535
Cash restricted for debt service		1,909,516
Cash restricted for debt service with trustee		3,890,039
Cash with State Set-Aside		127,358
Capital construction:		
Cash and temporary investments		115,798,489
Cash and temporary investments with trustee		17,669,795
Total capital construction		133,468,284
Total cash and temporary investments per Schedules A and H	\$	309,900,159

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(3) Accounts Receivable and Payable

Accounts receivable in the Statement of Net Assets as of June 30, 2004 are as follows:

	Governmental Activities	Business-Type Activities
Due from Commonwealth of Virginia	\$ 20,077,970	-
Due from Federal government	2,073,440	-
Due from customers	197,912	8,876,595
Property taxes receivable	9,127,960	-
Interest receivable	302,558	79,117
Other	6,503,734	-
Total accounts receivable	\$ 38,283,574	8,955,712

Accounts receivable, net of allowance for uncollectibles, in the governmental funds as of June 30, 2004 are as follows:

	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds
Due from Commonwealth of Virginia	\$ 17,167,555	-	1,093,520	1,816,895
Due from Federal government	84,348	-	135,114	1,853,978
Property taxes receivable	9,127,960	-	-	-
Interest receivable	164,182	80,925	30,693	-
Other	5,453,874	-	-	1,049,860
Total accounts receivable	\$ 31,997,919	80,925	1,259,327	4,720,733

Property taxes receivable in the General Fund as of June 30, 2004 are as follows:

	Taxes Receivable	Allowance for Uncollectible Amounts	Net Taxes Receivable
Real property	\$ 4,731,658	1,161,965	3,569,693
Personal property	9,271,708	3,713,441	5,558,267
Total property taxes receivable	\$ 14,003,366	4,875,406	9,127,960

The total allowance for uncollectible amounts in the General Fund is \$6,806,011, which includes a \$1,930,605 allowance for uncollectible emergency medical service fees.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(3) Continued

Accounts receivable, net of allowance for uncollectibles, in the proprietary funds as of June 30, 2004 are as follows:

	Due From Customers	Interest Receivable
Public Utilities Fund	\$ 7,476,747	65,703
Chesapeake Expressway Fund	104,807	-
Stormwater Management Fund	1,276,116	13,065
Other enterprise funds	18,925	349
Internal Service Funds	197,912	26,758
Total accounts receivable	\$ 9,074,507	105,875

Accounts payable and accrued expenses in the Statement of Net Assets as of June 30, 2004 are as follows:

	Governmental Activities	Business-Type Activities
Accounts payable	\$ 5,292,950	1,340,963
Accrued expenses, excluding interest	4,694,198	78,442
Construction projects payable	1,496,228	2,013,808
Accrued interest	4,528,306	1,627,190
Total accounts payable and accrued expenses	\$ 16,011,682	5,060,403

Accounts payable, deposits, and accrued expenditures in the governmental funds as of June 30, 2004 are as follows:

	Accounts Payable and Deposits	Accrued Expenditures, Excluding Interest	Construction Projects Payable	Accrued Interest
General Fund	\$ 6,273,208	4,546,911	-	-
Debt Service Fund	-	104,867	-	158,593
Capital Projects Fund	-	-	1,496,228	-
Other governmental funds	1,457,881	42,420	-	-
Total accounts payable, deposits, and accrued expenditures	\$ 7,731,089	4,694,198	1,496,228	158,593

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(3) Continued

Accounts payable, deposits, and accrued expenses in the proprietary funds as of June 30, 2004 are as follows:

	Accounts Payable and Deposits	Accrued Expenses, Excluding Interest	Construction Projects Payable	Accrued Interest
Public Utilities Fund	\$ 1,221,882	34,464	1,986,412	628,916
Chesapeake Expressway Fund	23,420	11,390	59	998,274
Stormwater Management Fund	37,305	19,392	27,337	-
Other enterprise funds	58,356	13,196	-	-
Internal Service Funds	677,558	-	-	-
Total accounts payable, deposits, and accrued expenses	\$ 2,018,521	78,442	2,013,808	1,627,190

(4) Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

**Primary government
Governmental activities:**

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 251,782,465	6,473,264	(165,280)	258,090,449
Construction in progress	55,973,891	15,173,770	(30,466,520)	40,681,141
Total capital assets, not being depreciated	307,756,356	21,647,034	(30,631,800)	298,771,590
Capital assets, being depreciated:				
Buildings	499,341,536	5,133,289	(13,088)	504,461,737
Improvements other than buildings	11,988,006	12,737,467	(25,524)	24,699,949
Equipment and vehicles	67,601,862	8,443,882	(7,248,254)	68,797,490
Infrastructure	920,264,241	16,470,693	-	936,734,934
Total capital assets, being depreciated	1,499,195,645	42,785,331	(7,286,866)	1,534,694,110
Less accumulated depreciation for:				
Buildings	(111,226,462)	(10,616,205)	7,678	(121,834,989)
Improvements other than buildings	(3,748,048)	(700,329)	6,673	(4,441,704)
Equipment and vehicles	(46,070,782)	(4,911,145)	6,927,734	(44,054,193)
Infrastructure	(653,218,160)	(20,553,029)	-	(673,771,189)
Total accumulated depreciation	(814,263,452)	(36,780,708)	6,942,085	(844,102,075)
Total capital assets being depreciated, net	684,932,193	6,004,623	(344,781)	690,592,035
Capital assets, net	\$ 992,688,549	27,651,657	(30,976,581)	989,363,625

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(4) Continued

Depreciation expense for governmental activities was charged to functions of the primary government for the year ended June 30, 2004 as follows:

General government	\$	4,903,596
Public safety		267,583
Public works		69,284
Public welfare		87,148
Parks		19,022
Education		6,588,925
Net unallocated portion (depreciation of general infrastructure assets)		20,553,029
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets		4,292,121
Total depreciation expense, governmental activities		\$ 36,780,708

Depreciation and amortization expense, net unallocated portion, for governmental activities of \$20,634,855 includes the unallocated portion of depreciation expense noted above of \$20,553,029 and amortization expense of bond costs of issuance of \$81,826.

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

Functions	Project authorization	Expended to June 30, 2004	Committed	Required Future Financing
General government	\$ 23,086,109	12,990,626	10,095,483	none
Public safety	3,420,528	1,280,025	2,140,503	none
Public works	43,484,922	20,219,196	23,265,726	none
Parks	2,942,244	1,607,152	1,335,092	none
Public welfare	4,413,659	4,136,075	277,584	none
Education	2,404,550	448,067	1,956,483	none
Total	\$ 79,752,012	40,681,141	39,070,871	-

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(4) Continued

Business-type activities:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 17,083,373	111,457	-	17,194,830
Construction in progress	30,407,855	19,239,012	(839,397)	48,807,470
Total capital assets, not being depreciated	47,491,228	19,350,469	(839,397)	66,002,300
Capital assets, being depreciated:				
Buildings	4,215,589	-	-	4,215,589
Improvements other than buildings	1,299,077	23,396	-	1,322,473
Equipment and vehicles	9,349,995	86,510	(580,612)	8,855,893
Infrastructure	460,331,813	6,854,715	-	467,186,528
Total capital assets, being depreciated	475,196,474	6,964,621	(580,612)	481,580,483
Less accumulated depreciation for:				
Buildings	(269,030)	(109,375)	-	(378,405)
Improvements other than buildings	(299,670)	(31,909)	-	(331,579)
Equipment and vehicles	(4,215,433)	(833,153)	579,396	(4,469,190)
Infrastructure	(102,357,632)	(11,462,893)	-	(113,820,525)
Total accumulated depreciation	(107,141,765)	(12,437,330)	579,396	(118,999,699)
Total capital assets being depreciated, net	368,054,709	(5,472,709)	(1,216)	362,580,784
Capital assets, net	\$ 415,545,937	13,877,760	(840,613)	428,583,084

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(4) Continued

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

Public Utilities	\$	7,706,251
Chesapeake Expressway		4,358,496
Stormwater Management		166,148
Northwest River Park		3,690
Jordan Bridge		138,756
Recreation		63,989
<hr/>		
Total depreciation expense, business-type activities	\$	12,437,330

The estimated cost to complete the construction in progress of the business-type activities amounted to approximately \$66,600,000 at June 30, 2004. 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.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(4) Continued**Public Utilities Fund:**

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 5,554,694	79,272	-	5,633,966
Construction in progress	25,357,063	17,751,285	-	43,108,348
Total capital assets, not being depreciated	30,911,757	17,830,557	-	48,742,314
Capital assets, being depreciated:				
Buildings	73,598	-	-	73,598
Improvements other than buildings	1,225,284	23,396	-	1,248,680
Equipment and vehicles	3,472,468	64,510	(580,612)	2,956,366
Infrastructure	372,625,420	5,978,479	-	378,603,899
Total capital assets, being depreciated	377,396,770	6,066,385	(580,612)	382,882,543
Less accumulated depreciation for:				
Buildings	(18,361)	(2,491)	-	(20,852)
Improvements other than buildings	(293,549)	(30,349)	-	(323,898)
Equipment and vehicles	(2,537,688)	(209,794)	579,396	(2,168,086)
Infrastructure	(91,177,661)	(7,463,617)	-	(98,641,278)
Total accumulated depreciation	(94,027,259)	(7,706,251)	579,396	(101,154,114)
Total capital assets being depreciated, net	283,369,511	(1,639,866)	(1,216)	281,728,429
Capital assets, net	\$ 314,281,268	16,190,691	(1,216)	330,470,743

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(4) Continued

Chesapeake Expressway Fund:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 11,004,996	-	-	11,004,996
Construction in progress	-	617,620	-	617,620
Total capital assets, not being depreciated	11,004,996	617,620	-	11,622,616
Capital assets, being depreciated:				
Buildings	4,111,545	-	-	4,111,545
Equipment and vehicles	5,052,399	-	-	5,052,399
Infrastructure	77,711,336	6,120	-	77,717,456
Total capital assets, being depreciated	86,875,280	6,120	-	86,881,400
Less accumulated depreciation for:				
Buildings	(239,847)	(102,792)	-	(342,639)
Equipment and vehicles	(1,174,338)	(538,196)	-	(1,712,534)
Infrastructure	(8,088,564)	(3,717,508)	-	(11,806,072)
Total accumulated depreciation	(9,502,749)	(4,358,496)	-	(13,861,245)
Total capital assets being depreciated, net	77,372,531	(4,352,376)	-	73,020,155
Capital assets, net	\$ 88,377,527	(3,734,756)	-	84,642,771

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(4) Continued

Stormwater Management Fund:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 139,989	32,185	-	172,174
Construction in progress	5,050,792	870,107	(839,397)	5,081,502
Total capital assets, not being depreciated	5,190,781	902,292	(839,397)	5,253,676
Capital assets, being depreciated:				
Equipment and vehicles	278,451	-	-	278,451
Infrastructure	5,007,667	807,062	-	5,814,729
Total capital assets, being depreciated	5,286,118	807,062	-	6,093,180
Less accumulated depreciation for:				
Equipment and vehicles	(215,918)	(21,174)	-	(237,092)
Infrastructure	(209,381)	(144,974)	-	(354,355)
Total accumulated depreciation	(425,299)	(166,148)	-	(591,447)
Total capital assets being depreciated, net	4,860,819	640,914	-	5,501,733
Capital assets, net	\$ 10,051,600	1,543,206	(839,397)	10,755,409

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

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

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land and land improvements	\$ 13,954,283	2,125,654	(3,136)	16,076,801
Construction in progress	28,693,091	4,351,273	(32,139,635)	904,729
Total capital assets, not being depreciated	42,647,374	6,476,927	(32,142,771)	16,981,530
Capital assets, being depreciated:				
Buildings	4,649,301	30,013,981	-	34,663,282
Improvements other than buildings	2,433,648	-	-	2,433,648
Furniture, equipment, vehicles, and textbooks	44,960,345	5,622,200	(3,199,562)	47,382,983
Total capital assets, being depreciated	52,043,294	35,636,181	(3,199,562)	84,479,913
Less accumulated depreciation for:				
Buildings and building improvements	(4,631,866)	(2,051)	-	(4,633,917)
Improvements other than buildings	(1,694,630)	(119,398)	-	(1,814,028)
Furniture, equipment, vehicles, and textbooks	(26,054,284)	(4,489,781)	3,157,968	(27,386,097)
Total accumulated depreciation	(32,380,780)	(4,611,230)	3,157,968	(33,834,042)
Total capital assets being depreciated, net	19,662,514	31,024,951	(41,594)	50,645,871
Capital assets, net	\$ 62,309,888	37,501,878	(32,184,365)	67,627,401

Depreciation expense of \$4,611,230 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	\$ 5,467,256	-	-
Personal Property Tax Relief Act	5,863,125	-	-
Emergency medical service fees	366,667	-	-
Stormwater management fees	-	-	2,256,570
Other	307,797	316,107	47,909
Total deferred revenues	\$ 12,004,845	316,107	2,304,479

(Continued)

Schedule K, Continued

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(6) Long-Term Obligations

(a) A summary of changes in long-term obligations for governmental activities for the year ended June 30, 2004 follows:

	Balances at July 1, 2003	Increases	Decreases	Balances at June 30, 2004	Due Within One Year
Bonds payable:					
General obligation bonds	\$ 375,081,773	62,920,000	(87,902,773)	350,099,000	24,107,430
Lease revenue bond with general obligation pledge	-	4,940,000	-	4,940,000	55,000
	375,081,773	67,860,000	(87,902,773)	355,039,000	24,162,430
Deferred amounts:					
Add bond premiums	11,250,290	7,794,630	(1,058,384)	17,986,536	1,545,542
Refunding costs	(11,095,742)	(5,330,043)	1,128,745	(15,297,040)	(1,461,869)
Total bonds payable	375,236,321	70,324,587	(87,832,412)	357,728,496	24,246,103
Other long-term obligations:					
Net pension obligation	1,644,984	11,599,323	(11,643,278)	1,601,029	-
Certificates of participation	5,870,000	-	(1,855,000)	4,015,000	1,955,000
Notes payable	193,065	-	(71,216)	121,849	73,271
Arbitrage	231,253	-	(104,496)	126,757	-
Compensated absences	12,680,141	11,409,540	(10,075,872)	14,013,809	5,857,773
Literary loans	6,825,834	-	(549,493)	6,276,341	549,493
Capital leases	13,185,845	4,200,399	(3,220,896)	14,165,348	3,882,768
Capital leases to component unit	40,510,000	-	(2,385,000)	38,125,000	2,505,000
Supplemental Payments Agreement	27,720,000	-	(900,000)	26,820,000	950,000
Liability for self-insurance losses	16,631,942	8,593,001	(5,877,942)	19,347,001	3,406,382
Section 108 loan payable	2,010,000	720,000	(230,000)	2,500,000	245,000
Total long-term obligations	\$ 502,739,385	106,846,850	(124,745,605)	484,840,630	43,670,790

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(6) Continued

A summary of changes in long-term obligations for business-type activities for the year ended June 30, 2004 follows:

	Balances at July 1, 2003	Increases	Decreases	Balances at June 30, 2004	Due Within One Year
Public Utilities:					
Bonds payable:					
General obligation bonds	\$ 138,200,117	32,590,000	(37,672,794)	133,117,323	4,595,765
Revenue bonds	7,765,000	-	(275,000)	7,490,000	290,000
	145,965,117	32,590,000	(37,947,794)	140,607,323	4,885,765
Deferred amounts:					
Plus bond premiums	3,092,571	3,766,960	(158,482)	6,701,049	324,672
Less bond discounts	(18,072)	-	2,582	(15,490)	(2,582)
Less refunding costs	(966,251)	(2,838,985)	137,281	(3,667,955)	(262,532)
Total bonds payable	148,073,365	33,517,975	(37,966,413)	143,624,927	4,945,323
Notes payable	808,075	-	(118,075)	690,000	115,000
Arbitrage	37,575	-	(451)	37,124	-
Compensated absences	647,378	585,383	(521,206)	711,555	297,430
	149,566,393	34,103,358	(38,606,145)	145,063,606	5,357,753
Chesapeake Expressway:					
Revenue bonds	21,630,000	-	-	21,630,000	-
Less bond discount	(272,492)	-	10,480	(262,012)	(10,481)
Total bonds payable	21,357,508	-	10,480	21,367,988	(10,481)
Due to Commonwealth of Virginia	70,447,794	411,767	(895,045)	69,964,516	880,276
Compensated absences	47,731	43,026	(34,628)	56,129	23,462
	91,853,033	454,793	(919,193)	91,388,633	893,257
Stormwater Management:					
Compensated absences	67,098	89,792	(66,683)	90,207	37,710
Nonmajor business-type activities:					
Compensated absences	59,311	31,754	(38,919)	52,146	21,806
Total long-term obligations	\$ 241,545,835	34,679,697	(39,630,940)	236,594,592	6,310,526

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(6) Continued

A summary of changes in long-term obligations for the discretely presented component unit - Public Schools for the year ended June 30, 2004 follows:

	Balances at July 1, 2003	Increases	Decreases	Balances at June 30, 2004	Due Within One Year
Early retirement plan	\$ 3,101,919	-	(737,359)	2,364,560	820,348
Compensated absences	21,271,658	2,509,634	(983,067)	22,798,225	910,000
Net pension obligation	94,305	1,255	-	95,560	-
Liability for self-insurance losses	644,562	4,761,105	(3,366,911)	2,038,756	2,038,756
Capital leases	4,066,675	4,000,000	(2,464,269)	5,602,406	1,979,127
Total long-term obligations	\$ 29,179,119	11,271,994	(7,551,606)	32,899,507	5,748,231

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). There were no VPSA bonds issued in the current year.

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.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements

June 30, 2004

(6) Continued

(b) Outstanding bonds and loans at June 30, 2004 are comprised of the following issues:

	Remaining Interest Rates	Amount Outstanding
Governmental activities - General Obligation bonds:		
1993 Public Improvement Refunding bonds	5.00% - 5.50%	\$ 23,167,677
1993A Public Improvement bonds	5.20%	550,000
1994 Public Improvement bonds	5.00% - 7.00%	6,550,000
1994A School bonds	6.10% - 6.60%	4,748,499
1995 Public Improvement bonds	5.50% - 6.75%	3,000,000
1995 School bonds	5.40%	15,000,000
1996 Public Improvement bonds	5.00% - 6.50%	7,000,000
1996A School bonds	5.10% - 6.10%	7,730,000
1997A School bonds	5.35% - 6.10%	11,970,000
1998 Public Improvement bonds	4.20% - 5.00%	17,720,000
1998A School bonds	4.35% - 5.10%	6,150,000
1999A School bonds	5.10% - 6.10%	8,000,000
2000A School bonds	5.10% - 5.60%	7,280,000
2001A School bonds	4.85% - 5.60%	6,395,000
2001B School bonds	3.10% - 5.35%	1,577,824
2001 Public Improvement bonds	5.00% - 5.50%	2,260,000
2001 Public Improvement Refunding bonds	5.00% - 5.50%	51,450,000
2002A School bonds	5.10% - 5.60%	5,170,000
2002B School bonds	4.10% - 4.35%	5,195,000
2003 School Refunding bonds	2.50% - 5.25%	81,865,000
2003A School bonds	3.10% - 5.35%	2,260,000
2003A Public Improvement bonds	2.00% - 4.20%	12,140,000
2004A Public Improvement Refunding bonds	5.00%	62,920,000
2004 Lease Revenue bond with general obligation pledge	4.39%	4,940,000
		355,039,000
Plus unamortized bond premiums		17,986,536
Less deferred refunding costs		(15,297,040)
Total general obligation bonds, governmental activities		\$ 357,728,496
Governmental activities - literary loans:		
School literary loans, collateralized by certain school buildings	3.00%	\$ 6,276,341
Business-type activities:		
Public Utilities Fund - General Obligation bonds and Revenue bonds:		
1993 Public Improvement Refunding bonds	5.00% - 5.50%	\$ 4,987,323
1994 Water and Sewer Revenue Refunding bonds	4.75% - 5.15%	7,490,000
1995A Water and Sewer bonds	5.00% - 7.00%	26,200,000
2001 Water and Sewer Refunding bonds	3.00% - 4.25%	6,225,000
2003B Water and Sewer bonds	2.00% - 5.00%	54,525,000
2003C Water and Sewer Refunding bonds	2.00% - 3.50%	8,590,000
2004B Water and Sewer Refunding bonds	2.00% - 5.00%	32,590,000
		140,607,323
Plus unamortized bond premiums		6,701,049
Less unamortized bond discount		(15,490)
Less deferred refunding costs		(3,667,955)
Total general obligation and revenue bonds, Public Utilities Fund		\$ 143,624,927
Chesapeake Expressway Fund - Revenue bonds:		
1999A Toll Road Revenue bonds	5.63%	\$ 21,630,000
Less unamortized bond discount		(262,012)
Total revenue bonds, Chesapeake Expressway Fund		\$ 21,367,988

(Continued)

Schedule K, Continued

Callable	Noncallable	Call Premium
-	23,167,677	-
550,000	-	.00% - 2.00%
6,550,000	-	.25% - 2.00%
-	4,748,499	-
-	3,000,000	-
11,000,000	4,000,000	.00% - 2.00%
-	7,000,000	-
5,355,000	2,375,000	.00% - 3.00%
7,695,000	4,275,000	.00% - 3.00%
13,090,000	4,630,000	.00% - 2.00%
4,100,000	2,050,000	.00% - 2.00%
5,000,000	3,000,000	.00% - 2.00%
5,060,000	2,220,000	.00% - 2.00%
4,270,000	2,125,000	.00% - 2.00%
-	1,577,824	-
1,865,000	395,000	.00%
18,410,000	33,040,000	.00%
3,350,000	1,820,000	.00% - 1.00%
-	5,195,000	-
24,425,000	57,440,000	.00%
1,520,000	740,000	.00% - 1.00%
7,475,000	4,665,000	.00%
9,515,000	53,405,000	.00% - 1.00%
4,540,000	400,000	.00% - 2.00%
133,770,000	221,269,000	
-	6,276,341	-
-	4,987,323	-
7,490,000	-	.00% - 2.00%
23,100,000	3,100,000	.00% - 2.00%
-	6,225,000	-
44,025,000	10,500,000	.00%
2,460,000	6,130,000	.00%
19,130,000	13,460,000	.00% - 1.00%
96,205,000	44,402,323	
20,405,000	1,225,000	.00% - 1.00%

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule K, Continued

Notes to Basic Financial Statements
June 30, 2004

(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:	Bonds		Governmental Activities		Literary loans		Public Utilities - Bonds		Business-Type Activities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 24,162,430	18,081,924	549,493	188,290	4,885,765	6,448,197	-	1,216,688	-	1,216,688
2006	25,179,135	16,460,629	549,493	171,805	4,857,371	6,227,608	-	1,216,688	-	1,216,688
2007	26,744,763	15,119,835	549,493	155,321	4,905,573	6,046,345	-	1,216,688	-	1,216,688
2008	27,146,076	13,750,273	549,493	138,836	4,668,897	5,893,914	385,000	1,205,859	385,000	1,205,859
2009	29,342,112	12,372,430	549,493	122,351	4,774,154	5,726,214	410,000	1,183,500	410,000	1,183,500
2010-2014	148,686,690	40,184,427	2,256,091	373,658	23,480,563	25,590,882	2,410,000	5,535,844	2,410,000	5,535,844
2015-2019	63,833,940	8,675,133	1,073,252	121,989	26,865,000	19,936,194	3,170,000	4,755,937	3,170,000	4,755,937
2020-2024	9,943,854	892,522	199,533	5,986	31,010,000	12,940,456	4,165,000	3,730,359	4,165,000	3,730,359
2025-2029	-	-	-	-	22,770,000	5,560,500	5,485,000	2,381,484	5,485,000	2,381,484
2030-2033	-	-	-	-	12,390,000	1,586,250	5,605,000	652,078	5,605,000	652,078
	\$ 355,039,000	125,537,173	6,276,341	1,278,236	140,607,323	95,956,560	21,630,000	23,095,125	21,630,000	23,095,125

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
 June 30, 2004

(6) Continued

- (d) 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.
- (e) In April 2004, the City issued \$62,920,000 of general obligation public improvement refunding bonds with a true interest cost of 3.07% to advance refund various outstanding issues. The refunded bonds had interest rates ranging from 5.2% - 6.0%. The net proceeds of \$70,300,042 (after an original issue premium of \$7,794,630 and payment of \$414,588 for underwriting fees and other issuance costs), along with \$1,472,969 held by the City to pay interest on the refunded bonds, were used to purchase U. S. securities and deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. An additional \$104,867 was received for accrued interest. The refunded bonds are considered to be defeased and the liabilities have been removed from the governmental activities column of the Statement of Net Assets. On June 30, 2004, \$64,970,000 of the defeased bonds remains outstanding. The reacquisition price exceeded the net carrying amount of the old debt by \$5,330,043. This amount is being netted against the new debt and amortized over the new debt's life, which is the same as the remaining life of the refunded debt. This advance refunding resulted in an economic gain of \$4,283,237 and a net savings of \$5,086,394 in future debt service payments.

The amounts refunded and earliest call dates are as follows:

	Maturity Date	Principal Amount Refunded	Call Date
1995 Public Improvement Bonds	2006-2015	\$ 29,970,000	5/1/2005
1996 Public Improvement Bonds	2007-2014, 2016	35,000,000	5/1/2006
Total		\$ 64,970,000	

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
 June 30, 2004

(6) Continued

(f) In April 2004, the City issued \$32,590,000 of general obligation water and sewer refunding bonds with a true interest cost of 3.75% to refund various 1995 Water and Sewer bonds with interest rates ranging from 5.2% - 6.5%. The net proceeds of \$36,138,985 (after an original issue premium of \$3,766,960 and payment of \$217,975 for underwriting fees and other issuance costs), along with the \$600,283 held by the City to pay interest on the refunded bonds, were used to purchase U. S. securities and were deposited in an irrevocable trust with an escrow agent to provide solely for the payment of the maturities of the Series 1995 bonds. An additional \$52,477 was received for accrued interest. The refunded bonds are considered to be defeased and the liabilities have been removed from the business-type activities column of the Statement of Net Assets. On June 30, 2004, \$33,300,000 of the defeased bonds remains outstanding. The reacquisition price exceeded the net carrying amount of the old debt by \$2,838,985. This amount is being netted against the new debt and amortized over the new debt's life, which is shorter than the remaining life of the refunded debt. This advance refunding resulted in an economic gain of \$2,193,472 and a net savings of \$2,928,785 in future debt service payments. Revenues from the Public Utilities fund, a business-type activity, have been pledged on a junior lien basis towards payment of principal and interest.

The amounts refunded and earliest call dates are as follows:

Bond	Maturity Date	Principal Amount Refunded	Call Date
1995 General Obligation Water and Sewer Bonds	2006, 2010-2015, 2020	\$ 33,300,000	12/1/2005

(g) In March 2003, the City issued \$82,210,000 of general obligation school refunding bonds to partially refund the 1995 General Obligation School bonds that were sold to the Virginia Public School Authority. The net proceeds were used to purchase U.S. securities and deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liabilities have been removed from the governmental activities column of the Statement of Net Assets. On June 30, 2004, \$81,000,000 of the defeased bonds remains outstanding.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(6) Continued

- (h) In June 2003, the City issued \$9,185,000 of general obligation water and sewer refunding bonds to refund the 1992 Water and Sewer revenue refunding bonds. The net proceeds were used to purchase U.S. securities and were deposited in an irrevocable trust with an escrow agent to provide solely for the payment of the maturities of the Series 1992 bonds. The refunded bonds are considered to be defeased and the liabilities have been removed from the business-type activities column of the Statement of Net Assets. On June 30, 2004, none of the defeased bonds remain outstanding.
- (i) In December 2001, the City issued \$51,450,000 of public improvement refunding bonds to advance refund various outstanding issues. The net proceeds were used to purchase U.S. securities and deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liabilities have been removed from the governmental activities column of the Statement of Net Assets. On June 30, 2004, \$60,000 of the defeased bonds remains outstanding.
- (j) In December 2001, the City issued \$6,520,000 of general obligation water and sewer refunding bonds to advance refund various 1995A Water and Sewer bonds. The net proceeds were used to purchase U.S. securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liabilities have been removed from the business-type activities column of the Statement of Net Assets. On June 30, 2004, \$5,700,000 of the defeased bonds remains outstanding.
- (k) 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.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(6) Continued

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, 2004 amounted to \$69,964,516. Revenues generated from the project were used to make a \$895,045 repayment of Toll Facilities Revolving Account (TFRA) payment to VDOT. No payment schedule has been established.

- (1) 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. 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 \$900,000 principal payment from the Transportation Improvement Program Set-Aside Fund on the SPA during the year.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(6) Continued

The following table summarizes the City’s debt service requirements for the SPA as of June 30, 2004.

Fiscal year ending June 30:	
2005	\$ 2,331,120
2006	2,328,620
2007	2,328,870
2008	2,326,620
2009	2,326,870
2010-2014	11,644,450
2015-2019	11,650,238
2020-2022	6,978,312
<hr/>	
Total payments	41,915,100
Less amounts representing interest	15,095,100
<hr/>	
	\$ 26,820,000

- (m) In November 1996, the City financed a new Chesapeake Circuit Court building through financing arrangements with the IDA, a component unit of the City. Under the arrangement, the IDA issued \$24,460,000 in public facility lease revenue bonds to finance the construction, and the City leases the building from the IDA. 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, 2004, \$18,575,000 was outstanding.
- (n) In June 1994, the City financed a 320-bed addition to the City jail through a financing arrangement with the IDA. Under the arrangement, the IDA issued \$30,205,000 tax-exempt lease revenue bonds to finance the expansion, and the City leases the jail from the IDA. 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, 2004, \$19,550,000 was outstanding.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(6) Continued

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, the City refunded a portion of the debt related to the City jail project. 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 \$8,377,983 have been received by the City as of June 30, 2004. The current year reimbursement was \$833,077.

- (o) 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.

Subsequent to the refunding, future debt service requirements related to the refunding certificates and original certificates not defeased are as follows:

Fiscal years:	
2005	\$ 2,173,870
2006	2,173,300
<hr/>	
Total payments	4,347,170
Less amounts representing interest	332,170
<hr/>	
	\$ 4,015,000
<hr/>	

The certificates of participation bear interest at rates from 5.30% to 5.50%. Principal and interest are payable semiannually on January 1 and July 1 of each year. A debt service reserve recorded in the Debt Service Fund of \$2,338,697 is maintained by the City with a trustee.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(6) Continued

(p) Notes payable at June 30, 2004 consisted of the following:

Governmental activities	\$ 121,849
Business-type activities - Public Utilities Fund	690,000
Total notes payable	\$ 811,849

In December 2002, the City entered into a Purchase Agreement with a vendor to upgrade capital equipment. The balance of the note in the amount of \$121,849 matures February 1, 2006 and has interest rates ranging from 2.20% - 5.01%.

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, 2004 is \$690,000.

The following table summarizes the City's payment requirements for the notes payable as of June 30, 2004:

	Governmental activities	Business-type Activities - Public Utilities Fund
Fiscal years:		
2005	\$ 75,772	115,000
2006	50,515	115,000
2007	-	115,000
2008	-	115,000
2009	-	115,000
2010	-	115,000
Total payments	126,287	690,000
Less amounts representing interest	4,438	-
	\$ 121,849	690,000

(q) 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, 2004 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.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(6) Continued

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. For obligations of the Public Utilities Fund, a long-term liability has been established as of June 30, 2004 in the amount of \$37,124.

- (r) 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.
- (s) 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, 2003 was \$28,850,000. 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 \$75,837,381 as of June 30, 2004.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
 June 30, 2004

(6) Continued

(t) 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 6.36% 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 1.51% effective June 30, 2004. The following is a schedule of projected future loan payments:

Fiscal year ending June 30:	
2005	\$ 364,192
2006	363,068
2007	365,691
2008	366,912
2009	366,601
2010-2012	1,129,429
<hr/>	
Total payments	2,955,893
Less amounts representing interest	455,893
	<hr/>
	\$ 2,500,000
	<hr/>

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(6) Continued

(u) Computation of Legal Debt Margin

Assessed valuation - real estate		\$ 13,248,747,216
<hr/>		
Legal debt limit - 10% of assessed valuation		\$ 1,324,874,722
Amount of debt applicable to legal debt limit:		
General bonded debt	\$ 523,552,664	
Plus:		
Notes payable	811,849	
Less:		
Self-supporting debt not chargeable to debt limit	94,135,000	
Amounts available for debt service	22,098,361	
<hr/>		
		408,131,152
<hr/>		
Legal debt margin available		\$ 916,743,570
<hr/>		
Percent of:		
Legal debt margin outstanding		30.8%
Legal debt margin available		69.2%
<hr/>		
		100.0%
<hr/>		
Summary of assessed valuation:		
Public service real estate	\$ 836,319,821	
Other city real estate	12,412,427,395	
<hr/>		
		\$ 13,248,747,216
<hr/>		

(v) In November 1994, \$76,900,000 of Road Improvement Bonds were authorized by referendum. As of June 30, 2004, \$13,149,800 of these bonds remains unissued.

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

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

On November 20, 1996, the IDA 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 new facility. The remaining interest rates on the bonds vary from 4.90% to 6.25%. At June 30, 2004, \$18,575,000 was outstanding, \$14,230,000 of which is callable.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(6) Continued

On June 1, 1994, the IDA 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 new facility. The remaining interest rates on the bonds vary from 5.3% to 6.0%. At June 30, 2004, \$19,550,000 was outstanding, all of which is 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, will fund 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, 2004, \$2,160,000 was 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 begin on December 15, 2005 and will continue each year until the advance is repaid in full, which would be no later than December 15, 2019. A reservation of fund balance has been made in the General Fund for this amount.

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 will begin on June 15, 2005 and 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 this amount.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(7) Continued

The General Fund also budgeted and made payments of \$289,916 on behalf of the Airport Authority during fiscal year 2004. 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 \$6,807 on behalf of the Port Authority during fiscal year 2004. The City does not intend to collect these payments from the Port Authority.

Component Unit – Industrial Development Authority of the City of Chesapeake

On May 13, 1986, the City Council approved an advance to the IDA in a maximum amount of \$1,500,000. At June 30, 2004, \$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 \$662,867 on behalf of the Authority during fiscal year 2004. The City does not intend to collect these payments from the IDA.

Advances from the primary government to its component units as reported on the Statement of Net Assets as of June 30, 2004 is summarized as follows:

Advances to Airport Authority	\$	622,000
Advance to Port Authority		944,407
Advance to IDA		1,319,095
<hr/>		
Total advances to component units		2,885,502
Less allowance for uncollectible amounts		(2,263,502)
<hr/>		
Net advances to component units	\$	622,000
<hr/>		

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
 June 30, 2004

(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, 2004 are as follows:

Due From Other Funds	Due To Other Funds	
	Capital Projects Fund	Nonmajor Governmental Funds
General Fund	\$ -	1,345,923
Debt Service Fund	386,298	-
Total interfund balances	\$ 386,298	1,345,923

These interfund balances are a result of both operating transfers and temporary capital project funding. The amount due from the nonmajor governmental funds of \$1,345,923 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 \$563,397.

(Continued)

Notes to Basic Financial Statements
June 30, 2004

(8) Continued

Individual fund interfund transfers for the primary government were made for operating as well as capital purposes. These interfund transfers for the year ended June 30, 2004 are as follows:

Transfers To Other Funds	Transfers From Other Funds										Total
	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Public Utilities Fund	Chesapeake Expressway Fund	Stormwater Management Fund	Nonmajor Enterprise Funds	Internal Service Funds	Total	
General Fund	\$ -	-	-	64,460	-	368,981	-	28,108	65,126	526,675	
Debt Service Fund	40,892,987	-	439,864	2,063,550	-	-	-	-	-	43,396,401	
Capital Projects Fund	4,406,992	800,740	-	1,058,418	-	-	-	-	-	6,266,150	
Nonmajor governmental funds	13,726,202	-	-	1,942,557	-	-	-	-	-	15,668,759	
Internal Service Funds	1,495,669	-	-	7,616	1,241	2,578	1,864	-	564	1,509,532	
Total	\$ 60,521,850	800,740	439,864	5,136,601	1,241	371,559	1,864	28,108	65,690	67,367,517	

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(9) Leases

The City and Public 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, 2004, the City's capital assets from governmental activities include \$54,665,000 of buildings leased from component units and leased equipment of \$21,172,073. Current year amortization expense for leased assets is \$2,823,000 and is included in depreciation expense. Accumulated amortization expense for these assets is \$10,420,000.

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, 2004 are as follows:

	Capital	Operating
Fiscal years:		
2005	\$ 9,069,051	\$ 180,194
2006	8,702,432	136,510
2007	7,623,751	102,134
2008	7,133,346	106,219
2009	6,050,085	45,723
2010-2014	23,557,203	-
2015-2017	6,104,050	-
Total future minimum lease payments	68,239,918	\$ 570,780
Less amounts representing interest	15,949,570	
Present value of minimum capital lease payments	\$ 52,290,348	

Total governmental operating lease payments for the year ended June 30, 2004 were \$707,554.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(9) Continued

At June 30, 2004, the Public Schools fixed assets include \$9,174,447 of equipment financed under capital leases. Current year amortization expense for leased assets is \$767,076. Accumulated amortization expense for these assets is \$1,801,817. The future minimum capital lease payments and the present value of minimum capital lease payments for the Public Schools as of June 30, 2004 are as follows:

Fiscal years:		
2005	\$	2,125,406
2006		1,622,071
2007		1,321,057
2008		831,674
<hr/>		
Total future minimum lease payments		5,900,208
Less amounts representing interest		297,802
<hr/>		
Present value of minimum capital lease payments	\$	5,602,406
<hr/>		

(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.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(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, 2004 were both 10% 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
2004	\$	15,154,834	15,154,834	100%
2003		14,336,236	14,336,236	100%
2002		12,896,150	12,896,150	100%

Annual Pension Cost

For the year ended June 30, 2004, the City's and Schools' annual pension cost and net pension obligation were as follows:

		City	Schools
Annual required contribution	\$	11,643,278	1,632,555
Interest on net pension obligation		131,598	7,544
Adjustment to annual required contribution		(175,553)	(6,289)
Annual pension cost		11,599,323	1,633,810
Less contributions made		11,643,278	1,632,555
Decrease in net pension obligation		(43,955)	1,255
Net pension obligation at June 30, 2003		1,644,984	94,305
Net pension obligation at June 30, 2004	\$	1,601,029	95,560

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(10) Continued

The required contributions were determined as part of the June 30, 2003 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 Public 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, 2004	\$ 11,599,323	100.4%	\$ 1,601,029	\$ 1,633,810	100.0%	\$ 95,560
June 30, 2003	11,364,555	100.4%	1,644,984	1,526,160	100.0%	94,305
June 30, 2002	12,528,081	100.4%	1,690,144	1,622,620	100.0%	94,367

Early Retirement Plan

During fiscal year 1991, the Public 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 \$737,359 were made by the Public Schools during the year, resulting in a remaining liability of \$2,364,560 reflected in the component unit Public Schools' long-term liability as of June 30, 2004.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule K, Continued

**Notes to Basic Financial Statements
June 30, 2004**

(11) Reserved Fund Balances

Primary Government

The reserved fund balances in the fund financial statements at June 30, 2004 were as follows:

	General	Debt Service	Capital Projects	Other Nonmajor Governmental	Total
RESERVED FOR:					
Expendable:					
Advances to component units	\$ 232,000	390,000	-	-	622,000
Reserve for debt service	-	2,338,697	-	-	2,338,697
Law library	50,774	-	-	-	50,774
Oak Grove Connector construction	127,358	-	79	-	127,437
Radio system	1,902,728	-	99,005	-	2,001,733
Future years spending	41,527	-	-	-	41,527
City future capital projects	59,816	-	-	-	59,816
Schools future capital projects	2,269,889	-	-	-	2,269,889
City Courts construction	-	-	4,828,511	-	4,828,511
City Jail construction	-	-	3,670,462	-	3,670,462
AIW Bridge	-	-	1,310,684	-	1,310,684
Drainage projects	-	-	2,141,109	-	2,141,109
Recreational facilities	-	-	570,804	-	570,804
Arbitrage rebate	-	126,757	-	-	126,757
Encumbrances	2,856,004	-	19,244,794	1,648,341	23,749,139
Nonexpendable:					
Nonexpendable fund corpus	-	-	-	12,795	12,795
	\$ 7,540,096	2,855,454	31,865,448	1,661,136	43,922,134

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(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, 2004.

(13) Hospitalization Benefits for Certain Retired Employees

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, 2004, 221 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, 2004 were \$948,726.

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, 2004, 75 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, 2004 were \$148,435.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(14) Commitments***Capital Improvements Program***

The City Council adopted a five-year capital improvements program on May 11, 2004, the total estimated cost of which amounted to \$241,359,332 to be funded from anticipated state and federal funds, 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:

General Fund - designated reserves	\$ 41,526
Debt service fund balance	105,065
Open space ordinance fees	368,980
General Fund - fund balance	700,000
Capital Projects Fund - fund balance	1,396,291
Anticipated funds from completed projects	2,376,818
Other local sources	5,733,977
Stormwater management fees	5,764,210
Public Utilities	7,450,000
VDOT reimbursement	11,247,273
Funds on hand previously appropriated	38,366,635
VPSA bonds and borrowing authority	81,928,522
Anticipated federal and state funds	85,880,035
	\$ 241,359,332

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, 2004, the City has incurred cumulative costs of \$24,805,094 related to the design and construction of the pipeline, with \$15,381 relating to fiscal year 2004. These costs are capitalized in the Public Utilities Fund.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(15) Contingent Liabilities

Joint Venture

On September 7, 1989, the City guaranteed approximately 23%, or \$5,330,250, of \$23,175,000 in bonds and the interest thereon, issued by the Southeastern Public Service Authority (SPSA). The outstanding balance of these bonds as of June 30, 2004 is \$2,385,000. Therefore, the City's remaining allocable portion as of June 30, 2004 is \$548,550. The purpose of SPSA is to provide and operate a regional system for the reception, transfer, processing and disposal of solid waste. SPSA is governed by a Board of Directors consisting of a representative appointed by each of the member cities and counties. Under the guaranty agreement, the City has agreed to make payments to the trustee for deposit in a reserve account, as necessary, to maintain in such account the sum of the amount of interest due on the next succeeding interest payment date for the bonds and the amount required to pay principal of all the bonds maturing on the next July 1. The City's allocable portion of the amount that may be due is 23%, with the remaining balance being due from neighboring localities as follows: Norfolk - 54%, Portsmouth - 21% and Franklin - 2%. No payments were made under the provisions of the guaranty agreement to the reserve account during the year ended June 30, 2004.

Additionally, should SPSA perform any act that constitutes default under the bond indenture, the entire bond principal could be considered due, of which the City would be liable for its allocable portion.

The full faith and credit of the City is pledged to redeem \$548,550 of its allocable portion of the interest and bonds if SPSA revenues are insufficient to meet the obligations. On July 1, 2004, subsequent to year end, SPSA made the final principal payment on this obligation in the amount of \$2,385,000, thus retiring the obligation in full.

Separate financial statements may be obtained from Southeastern Public Service Authority, 723 Woodlake Drive, Chesapeake, VA 23320.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(15) Continued

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 been no significant changes in insurance coverage from the prior year nor have there 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 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 \$19,347,001 reported in the Self-Insurance Fund at June 30, 2004 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. Non-incremental claims adjustment expenses are included as part of the liability for claims and judgments.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(15) Continued

Changes in the Self-Insurance Fund's liability amount during the fiscal years ended June 30, 2004 and 2003 (discounted at 16.5% and 14.6%, respectively) were as follows:

	Beginning Balance	Claims and Changes in Estimates	Claims Payments	Ending Balance
2003-2004	\$ 16,631,942	8,593,001	5,877,942	19,347,001
2002-2003	\$ 14,333,000	5,818,904	3,519,962	16,631,942

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, 2004 are recognized as a long-term liability. The Public Schools use the information provided by the third-party administrator to aid in the determination of self-insurance liabilities. The computed liability as of June 30, 2004 is \$2,038,756.

Changes in the Public Schools' liability for self-insurance losses amount during the fiscal years ended June 30, 2004 and 2003 were as follows:

	Beginning Balance	Claims and Changes in Estimates	Claims Payments	Ending Balance
2003-2004	\$ 644,562	4,761,105	3,366,911	2,038,756
2002-2003	\$ 295,538	3,939,883	3,590,859	644,562

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.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(15) Continued

The City is currently involved in litigation involving 213 plaintiffs pending in the Circuit Court of the City. The plaintiffs allegedly suffered miscarriages from 1983 through 2000, and attribute their miscarriages to disinfectant by-products in Chesapeake's water system called trihalomethanes (THMs). THMs are naturally occurring disinfection by-products found in most treated surface water supplies and are regulated, through the Safe Drinking Water Act (SDWA), by the EPA and those states granted primacy under the SDWA. Virginia has been granted primacy under the SDWA and regulates THMs and other SDWA constituents through the Virginia Department of Health regulations. The Virginia Department of Health maintains that the City has never exceeded any applicable regulatory limit for THMs.

Each plaintiff claims \$5 million compensatory damages per miscarriage (some had multiple miscarriages) plus an additional sum for punitive damages. In the aggregate, the City now has claims pending against it in litigation totaling \$1,545,000,000 in compensatory damages and \$213,000,000 in punitive damages. These cases have been consolidated for pretrial motions and discovery under the Virginia Multiple Claimant Litigation Act.

In addition to the 213 plaintiffs who have sued, the City has received written notices of claims on behalf of an additional 12 women claiming to have suffered one or more miscarriages or stillbirths as a result of exposure to THMs in the City's water supply between 1991 and 1998.

These lawsuits all involve multiple theories of recovery including: breach of contract, battery, negligence, negligence per se, violation of the implied UCC warranties of merchantability and implied warranty of fitness for a particular purpose, violation of the Virginia Consumer Protection Act, nuisance, trespass, and four separate counts claiming fraud. Many of these counts present novel questions of law and theories of recovery. The City denies all of the claims. The City moved to dismiss the plaintiffs' claims on various grounds, including the statute of limitations, the doctrine of sovereign immunity (which protects governmental defendants from certain claims), the failure to provide timely notice of claims, and the failure to allege facts which would support the asserted causes of action. Hearings on these various motions to dismiss were held on October 9 and 29, 2001; an evidentiary hearing related to these issues was held on June 10, 2002; and a hearing on the application of CERCLA (Superfund laws) to the cases was held on September 4, 2002.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(15) Continued

As a result of these hearings, the judge ruled that Superfund laws do not apply to the case, a ruling which is favorable for the City. As a result of this ruling, only the four fraud counts remain. On November 6, 2002, the judge ruled that the City does not have sovereign immunity (is not immune from being sued).

In August of 2001, the Court selected one case to proceed to trial, and scheduled the trial to begin on September 18, 2002. The plaintiff voluntarily non-suited her case in June of 2002. Plaintiffs' counsel has identified another case for trial, but no trial date has been established for that case, and all of the judge's rulings have been applied to this new case.

On February 26, 2003, the judge heard evidence to determine whether the four remaining fraud claims could proceed under the two-year statute of limitations. After hearing evidence and argument from both sides, the judge asked each party to submit briefs on the issue of the accrual date for the fraud claims. The accrual date is the date on which the two-year statute of limitations begins to run. A hearing took place on May 6, 2003, whereby the judge heard additional arguments on the accrual date issue. Subsequently, the judge ruled orally that the issue of the accrual date should be decided by a jury.

On December 30, 2003, the City filed a Petition for Appeal with the Virginia Supreme Court requesting the Court to issue a Writ of Appeal to allow the City to appeal the Chesapeake Circuit Court's denial of the City's Special Plea of Sovereign Immunity and Special Plea of Statute of Limitations. On January 2, 2004, counsel for the plaintiff filed a Petition for Appeal with the Virginia Supreme Court, requesting the Court to issue a Writ of Appeal to review the trial court's decision that CERCLA does not apply in these cases to extend the statute of limitations. On February 3, 2004, the Virginia Supreme Court issued an order allowing the Virginia Municipal League and the Local Government Attorneys of Virginia, Inc. to file a brief of amici curiae in support of the City's Special Plea of Sovereign Immunity.

Both the City and the plaintiff were granted writs of appeal. Arguments were heard before the Virginia Supreme Court on September 15, 2004.

It is impossible at this time to predict the outcome of the Appeals or to determine how their potential outcomes will affect the case. Whatever decisions the Virginia Supreme Court makes regarding these issues will be applied to the remaining cases. If the plaintiffs' claims proceed to trial, the City also intends to contest their basis in the relevant scientific and medical literature.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(15) Continued

The City will continue to vigorously defend itself against these claims, but the litigation could take several years and the City cannot predict when these claims will be finally resolved. At this stage in the proceedings, it is not possible to estimate the loss potential of the asserted and potential cases, if any. See note 16 for subsequent developments on these claims.

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 City continues to work with the COPS office to resolve the audit findings. The City believes that once resolution is reached, the City will be in compliance with grant guidelines.

(16) Fund Deficit

The Self Insurance Fund, an Internal Service Fund, had a net asset deficit of \$1,768,071 at June 30, 2004. This deficit will be funded by future internal billings to other funds of the City.

(17) Subsequent Events

PPTRA Changes

Beginning in fiscal year 2006, the Commonwealth of Virginia will shift scheduled payments to localities under the Personal Property Tax Relief Act (PPTRA). The cash flow impact of this change on Virginia localities may necessitate the use of short-term financing by the localities in order to transition to the change. The Commonwealth may reimburse localities for any interest expense on short-term borrowing required.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2004

(17) Continued

The full budgetary and fiscal impact of this change has not yet been assessed by the City or the Commonwealth. The State Auditor of Public Accounts is expected to provide guidance to localities to address their budgeting and reporting issues.

Litigation

On November 5, 2004, the Virginia Supreme Court issued its opinion in the case of Helen Cunningham v. City of Chesapeake. The Court held that the doctrine of sovereign immunity applies to bar all claims alleged by the plaintiff and ordered that final judgment be entered for the City of Chesapeake. The sovereign immunity ruling in this case will apply likewise to dismiss the identical claims of the remaining 212 plaintiffs who have alleged that they suffered miscarriages as a result of exposure to trihalomethanes in the City's drinking water.

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, 2004

	General Fund			
	Original Budget	Revised Budget	Actual	Variance Positive (Negative)
REVENUES				
General property taxes	\$ 199,735,000	201,119,816	203,503,495	2,383,679
Other local taxes	91,589,000	91,589,000	97,909,519	6,320,519
Licenses, permits and fees	2,229,840	2,229,840	2,495,770	265,930
Intergovernmental revenues:				
Commonwealth of Virginia	65,648,105	68,088,151	72,962,758	4,874,607
Federal government	60,000	15,036,241	13,166,950	(1,869,291)
Recovered costs	98,100	243,100	314,650	71,550
Investment income	1,000,000	1,003,915	286,011	(717,904)
Revenues from use of property	222,600	222,600	312,407	89,807
Charges for services	7,238,900	7,336,937	7,265,007	(71,930)
Fines and forfeitures	2,560,000	2,560,000	2,440,972	(119,028)
Miscellaneous local revenues	72,300	72,300	393,757	321,457
Total revenues	370,453,845	389,501,900	401,051,296	11,549,396
EXPENDITURES				
Current:				
General government	74,345,757	97,221,311	94,219,258	3,002,053
Public safety	61,514,436	61,678,309	61,038,006	640,303
Public works	40,303,627	39,893,444	38,461,949	1,431,495
Parks	9,084,124	9,059,325	8,458,468	600,857
Debt service	2,326,120	2,326,120	2,326,937	(817)
Total expenditures	187,574,064	210,178,509	204,504,618	5,673,891
Excess of revenues over expenditures	182,879,781	179,323,391	196,546,678	17,223,287
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	130,000	159,999	526,675	366,676
Transfers from component units	-	-	214,508	214,508
Transfers from component unit - cash reversion	-	-	54,254	54,254
Transfers to other funds	(58,488,035)	(60,508,746)	(60,521,850)	(13,104)
Transfers to component units	(127,628,809)	(127,774,672)	(127,774,672)	-
Total other financing sources (uses)	(185,986,844)	(188,123,419)	(187,501,085)	622,334
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(3,107,063)	(8,800,028)	9,045,593	17,845,621
Fund balances - beginning	62,444,721	62,444,721	62,444,721	-
Fund balances - ending	\$ 59,337,658	53,644,693	71,490,314	17,845,621

Unaudited - see accompanying auditors' 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, 2004

City Employees						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL)	Unfunded (Overfunded) Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2003	\$ 348,678,360	389,423,931	40,745,571	89.54%	\$ 113,636,361	35.86%
June 30, 2002	340,608,133	365,260,331	24,652,198	93.25%	114,813,210	21.47%
June 30, 2001	324,690,086	307,339,232	(17,350,854)	105.65%	94,893,524	(18.28%)

Schools' Non-Professional Employees						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL)	Unfunded (Overfunded) Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2003	\$ 36,855,331	44,286,176	7,430,845	83.22%	\$ 15,293,398	48.59%
June 30, 2002	39,362,090	40,119,837	757,747	98.11%	14,038,774	5.40%
June 30, 2001	37,953,555	36,753,018	(1,200,537)	103.27%	13,309,019	(9.02%)

Unaudited - see accompanying auditors' report.

CITY OF CHESAPEAKE, VIRGINIA

Note to Required Supplementary Information
June 30, 2004

(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.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Note to Required Supplementary Information
June 30, 2004

(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 City of 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 Sources -
 Budget and Actual
 Year Ended June 30, 2004

	Revised Budget	Actual	Variance Positive (Negative)
REVENUES			
General property taxes			
Current taxes on real property	\$ 154,400,000	154,611,514	211,514
Current taxes on public service corporations	9,945,000	10,681,324	736,324
Current taxes on personal property	25,494,816	24,716,591	(778,225)
Delinquent taxes on real property	2,490,000	2,824,887	334,887
Delinquent taxes on personal property	6,590,000	8,236,623	1,646,623
Penalties, interest, and advertising	2,200,000	2,432,556	232,556
Total general property taxes	201,119,816	203,503,495	2,383,679
Other local taxes			
Local sales and use taxes	26,600,000	29,744,620	3,144,620
Consumer utility taxes	9,607,360	9,051,323	(556,037)
Consumer telephone taxes	7,548,640	7,607,504	58,864
Business license taxes	18,170,000	19,351,581	1,181,581
Local utility consumption tax	715,000	824,491	109,491
Franchise license taxes	2,000,000	1,845,087	(154,913)
Motor vehicle license	4,305,000	4,252,762	(52,238)
Bank stock taxes	755,000	724,090	(30,910)
Taxes on recordation and wills	1,555,000	2,477,806	922,806
Tobacco taxes	5,118,000	5,058,061	(59,939)
Hotel and motel room taxes	1,980,000	2,107,447	127,447
Restaurant food taxes	12,480,000	13,903,134	1,423,134
Admission taxes	465,000	572,745	107,745
Short-term rental taxes	160,000	239,120	79,120
Pari-mutuel wagering pool tax	130,000	149,748	19,748
Total other local taxes	91,589,000	97,909,519	6,320,519
Revenues from local sources			
Licenses, permits, and fees:			
Bicycle licenses	100	4	(96)
Building structure and equipment permits	854,000	935,992	81,992
Precious metals and gems permits	2,200	1,800	(400)
Highway and driveway permits	51,000	30,225	(20,775)
Transfer fees	8,700	7,849	(851)
Zoning inspection fees	65,210	56,071	(9,139)
Building inspection fees	51,000	64,032	13,032
Electrical inspection fees	317,700	333,766	16,066
Elevator inspection fees	27,000	34,700	7,700
Plumbing inspection fees	204,000	224,408	20,408
Mechanical permits	297,000	293,389	(3,611)
Subdivision review fees	143,030	279,495	136,465
Solicitors permits	200	300	100
Taxi operators licenses	500	200	(300)
Inspection fees - gas appliances	59,000	73,685	14,685
Animal license and fees	133,700	131,574	(2,126)
Rental inspection fees	15,500	28,280	12,780
Total licenses, permits, and fees	2,229,840	2,495,770	265,930
Fines and forfeitures	2,560,000	2,440,972	(119,028)
Investment income	1,003,915	286,011	(717,904)
Revenues from use of property:			
Rental of general property	160,500	236,540	76,040
Rental of recreation facilities	52,600	65,252	12,652
Library rental revenue	9,500	10,615	1,115
Total revenues from use of property	222,600	312,407	89,807

(Continued)

General Fund
 Schedule of Revenues and Other Sources -
 Budget and Actual
 Year Ended June 30, 2004

	Revised Budget	Actual	Variance Positive (Negative)
Revenues from local sources, continued:			
Charges for services:			
Special court costs	\$ 95,400	97,810	2,410
Law library fees	98,200	108,094	9,894
Accident report fees	27,000	27,066	66
Municipal court fees	42,400	39,742	(2,658)
Civil penalties	160,000	7,908	(152,092)
Non-support fees	48,200	33,977	(14,223)
Commonwealth's Attorney fees	6,600	7,786	1,186
Police escort fees	3,000	2,100	(900)
Sale of service - police	103,037	90,828	(12,209)
Fire report fees	-	145	145
Sheriff fees	22,900	22,861	(39)
Inmate medical fees	5,000	50,639	45,639
Sale of service - jail	974,400	985,908	11,508
Sale of service - jail inmates	210,000	219,571	9,571
Inmate phone system - jail	208,400	168,671	(39,729)
Sale of service - sheriff	211,300	285,125	73,825
Sale of service - public works	164,300	252,625	88,325
Engineering and administrative costs	936,000	488,217	(447,783)
Recreation franchise fees	81,800	76,154	(5,646)
Vending machine commissions	9,900	5,601	(4,299)
Telephone commissions	700	194	(506)
Library fines and fees	368,400	317,643	(50,757)
Lot processing fees	143,000	172,650	29,650
Apartment processing fees	57,000	78,905	21,905
Sale of service - planning	1,000	2,168	1,168
Sale of service - public information	2,000	3,096	1,096
Sale of publications	6,000	7,232	1,232
Returned check fees	14,200	18,041	3,841
Custodian service	102,100	95,742	(6,358)
Wage assignment fees	10,500	8,966	(1,534)
Sale of service - assessor	4,900	9,944	5,044
Adult Clinic fees	17,500	105	(17,395)
Emergency medical service fees	2,480,900	2,647,028	166,128
Administration collected fees	100,500	307,144	206,644
Rent of showmobile	2,200	7,320	5,120
Sale of service - Commissioner of Revenue	2,300	2,287	(13)
Subdivision inspection fees	324,900	502,738	177,838
Sale of service - capital improvement budget support	290,000	111,776	(178,224)
Sale of service - sponsorship	1,000	1,200	200
Total charges for services	7,336,937	7,265,007	(71,930)
Miscellaneous local revenues			
Payments in lieu of taxes from other agencies	2,000	3,536	1,536
Sale of personal property	-	27,640	27,640
Sale of real property	-	250,500	250,500
Sale of ARC - public works	37,400	52,910	15,510
Public Works claims reimbursement	24,000	15,811	(8,189)
Local grant - TCI capital equipment	-	15,699	15,699
Sale of junk and salvage	-	20,566	20,566
Other miscellaneous revenue	8,900	7,095	(1,805)
Total miscellaneous local revenue:	72,300	393,757	321,457

(Continued)

General Fund
 Schedule of Revenues and Other Sources -
 Budget and Actual
 Year Ended June 30, 2004

	Revised Budget	Actual	Variance Positive (Negative)
Revenues from local sources, continued:			
Recovered costs:			
Insurance claims and collections	\$ -	30	30
Other recoveries and rebates	175,000	236,052	61,052
Virginia Juvenile Community Crime Control	67,600	78,333	10,733
Recoveries - jury	500	235	(265)
Total recovered costs	243,100	314,650	71,550
Total revenues from local sources	306,377,508	314,921,588	8,544,080
Revenues from the Commonwealth			
Noncategorical aid:			
ABC profits	116,780	303,759	186,979
Wine taxes	122,410	188,287	65,877
Motor vehicle carrier taxes	128,870	129,604	734
Mobile home titling taxes	40,000	53,031	13,031
Police	6,283,184	6,271,536	(11,648)
Daily rental taxes - auto	580,000	650,019	70,019
Drug enforcement state assets	94,736	301,222	206,486
Deed taxes	630,100	782,093	151,993
Personal Property Tax Relief	18,590,000	18,854,600	264,600
Delinquent Personal Property Tax Relief	6,910,000	7,270,423	360,423
Total noncategorical aid	33,496,080	34,804,574	1,308,494
Categorical aid:			
Shared expenses:			
Commonwealth's Attorney	866,805	956,560	89,755
Sheriff	6,795,682	7,562,074	766,392
Commissioner of the Revenue	295,989	333,642	37,653
Treasurer	346,299	384,692	38,393
Medical Examiner	2,000	3,330	1,330
Registrar/Electoral Board	60,326	68,777	8,451
Agriculture	51,885	52,468	583
Jail project reimbursement - state	611,645	611,645	-
Total shared expenses	9,030,631	9,973,188	942,557
Other categorical aid:			
Local jail	1,416,533	1,699,426	282,893
Street and highway maintenance	20,802,536	20,802,536	-
Library	228,072	221,278	(6,794)
Health	84,317	52,904	(31,413)
Excess fees	704,400	1,018,109	313,709
Emergency Medical Service state vehicle registration	52,298	58,070	5,772
Other state grants	-	19,216	19,216
Transportation improvement set-aside	880,000	842,846	(37,154)
Reimbursement for emergency expense	1,393,284	3,470,611	2,077,327
Total other categorical aid	25,561,440	28,184,996	2,623,556
Total categorical aid	34,592,071	38,158,184	3,566,113
Total revenues from the Commonwealth	68,088,151	72,962,758	4,874,607

(Continued)

General Fund
 Schedule of Revenues and Other Sources -
 Budget and Actual
 Year Ended June 30, 2004

	Revised Budget	Actual	Variance Positive (Negative)
Revenues from the Federal Government			
Noncategorical aid - Refuge Revenue Sharing Act	\$ 60,000	58,017	(1,983)
Categorical aid:			
Other federal grants	-	26,331	26,331
Drug Enforcement Agency	64,971	81,033	16,062
Emergency reimbursement - federal	14,911,270	13,001,569	(1,909,701)
Total revenues from the Federal Government	15,036,241	13,166,950	(1,869,291)
Total revenues	389,501,900	401,051,296	11,549,396
OTHER FINANCING SOURCES			
Transfer from component unit - cash reversion	-	54,254	54,254
Transfer from component unit	-	214,508	214,508
Transfers from other funds	159,999	526,675	366,676
Total other financing sources	159,999	795,437	635,438
Total revenues and other financing sources	\$ 389,661,899	401,846,733	12,184,834

CITY OF CHESAPEAKE, VIRGINIA

Schedule M-2

General Fund
 Schedule of Expenditures, Encumbrances, and Other Uses -
 Budget and Actual
 Year Ended June 30, 2004

	Appropriations	Expenditures			Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay					
EXPENDITURES								
General government:								
Legislative Department - City Council	\$ 936,112	936,184	-		936,184	(72)	429	(501)
Executive Department:								
City Manager	1,391,879	1,238,575	12,178		1,250,753	141,126	46,896	94,230
Intergovernmental Affairs	355,838	342,951	-		342,951	12,887	-	12,887
Public Communications	958,012	918,569	-		918,569	39,443	30,266	9,177
Contingencies	840,658	337,716	-		337,716	502,942	-	502,942
Environmental emergencies	22,266,710	21,213,875	20,516		21,234,391	1,032,319	536,114	496,205
Department of Law - City Attorney	1,351,629	1,324,946	-		1,324,946	26,683	-	26,683
Department of Finance:								
Commissioner of Revenue	2,542,064	2,474,867	-		2,474,867	67,197	38,720	28,477
Real Estate Assessor	2,170,080	2,063,690	-		2,063,690	106,390	-	106,390
Board of Equalization	3,166	2,449	-		2,449	717	-	717
City Treasurer	3,074,184	2,852,781	-		2,852,781	221,403	105,714	115,689
Sale of city auto licenses	81,139	74,707	-		74,707	6,432	-	6,432
Director of Finance	2,592,053	2,435,399	-		2,435,399	156,654	10,200	146,454
Economic Development	1,289,890	1,286,275	-		1,286,275	3,615	16,771	(13,156)
Development services	24,472	17,500	-		17,500	6,972	-	6,972
Museum and Information Center	61,000	59,554	-		59,554	1,446	-	1,446
Budget Director	556,154	509,354	-		509,354	46,800	2,240	44,560
City Auditor	400,697	391,201	-		391,201	9,496	-	9,496
Purchasing	738,430	704,796	-		704,796	33,634	4,400	29,234
Independent auditors	94,500	82,760	-		82,760	11,740	-	11,740
Department of Human Resources:								
Human Resources	1,729,112	1,663,204	-		1,663,204	65,908	26,870	39,038
HIPAA	194,358	62,108	-		62,108	132,250	74,000	58,250
Judicial Department:								
Circuit Court	491,568	435,322	-		435,322	56,246	14,300	41,946
Magistrates office	14,018	10,971	-		10,971	3,047	-	3,047
General District Court	2,307,083	2,277,594	-		2,277,594	29,489	-	29,489
Juvenile and Domestic Relations Court	830,698	847,549	-		847,549	(16,851)	505	(17,356)
Court Services Unit	394,999	344,364	-		344,364	50,635	-	50,635
Commonwealth's Attorney	1,996,685	1,962,704	-		1,962,704	33,981	49,666	(15,685)
Circuit Court Clerk	744,676	714,133	-		714,133	30,543	-	30,543
Sheriff	24,938,928	25,418,742	109,569		25,528,311	(589,383)	18,646	(608,029)

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule M-2, Continued

General Fund
 Schedule of Expenditures, Encumbrances, and Other Uses -
 Budget and Actual
 Year Ended June 30, 2004

	Appropriations	Expenditures			Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay					
General government, continued:								
Judicial Department, continued:								
Law Library	\$ 129,700	103,642	-	-	103,642	26,058	-	26,058
Chesapeake Volunteer Services	285,732	253,140	-	-	253,140	32,592	-	32,592
Virginia Juvenile Community Crime Control	56,529	66,881	-	-	66,881	(10,352)	-	(10,352)
Department of Public Health:								
Adult clinics	670,126	649,337	-	-	649,337	20,789	106	20,683
General clinics	1,354,955	1,274,446	-	-	1,274,446	80,509	40,220	40,289
OSHA services	328,649	319,681	-	-	319,681	8,968	1,786	7,182
Department of Recreation:								
Recreation programs	2,132,056	2,012,459	-	-	2,012,459	119,597	10,853	108,744
Northwest River Park	420,934	424,230	-	-	424,230	(3,296)	4,813	(8,109)
Senior citizens program	228,716	213,546	-	-	213,546	15,170	-	15,170
Department of Public Library:								
Public library	5,876,805	5,731,609	-	-	5,731,609	145,196	1,701	143,495
Records management	35,130	35,532	-	-	35,532	(402)	-	(402)
Public library state aid	227,564	150,422	-	-	197,836	29,728	23,786	5,942
Boards and Commissions:								
Planning Department	1,572,877	1,523,899	5,263	-	1,529,162	43,715	18,044	25,671
Planning Commission	44,158	44,015	-	-	44,015	143	-	143
Electoral Board	601,444	540,688	-	-	540,688	60,756	-	60,756
Electoral workers	87,541	91,665	-	-	91,665	(4,124)	-	(4,124)
Department of Agriculture	371,237	377,690	-	-	377,690	(6,453)	-	(6,453)
Nondepartmental:								
Support of civic and community organizations	6,972,908	6,753,092	-	-	6,753,092	219,816	104,451	115,365
Chesapeake Regional Airport	289,916	289,916	-	-	289,916	-	-	-
Debt service	2,326,120	2,326,937	-	-	2,326,937	(817)	-	(817)
Special programs	163,542	163,588	-	-	163,588	(46)	-	(46)
Total general government	99,547,431	96,351,255	194,940	-	96,546,195	3,001,236	1,181,497	1,819,739
Public safety:								
Police Department	28,149,231	27,276,672	38,411	-	27,315,083	834,148	620,135	214,013
Animal Control	939,463	934,096	-	-	934,096	5,367	1,856	3,511
Public safety training	451,183	377,984	-	-	377,984	73,199	48,106	25,093

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule M-2, Continued

General Fund
 Schedule of Expenditures, Encumbrances, and Other Uses -
 Budget and Actual
 Year Ended June 30, 2004

	Appropriations	Operating	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
			Capital Outlay					
Public safety continued:								
Fire Department	\$ 23,311,240	24,284,478	-	-	24,284,478	(973,238)	6,549	(979,787)
Fire programs - state	48,093	48,091	-	-	48,091	2	-	2
Fire Prevention Bureau	1,074,622	926,078	-	-	926,078	148,544	-	148,544
Fire training	302,246	301,708	-	-	301,708	538	-	538
Fire - environmental compliance	309,936	60,856	-	-	60,856	249,080	249,080	-
Emergency Medical Services	4,320,396	4,028,560	31,543	-	4,060,103	260,293	76,483	183,810
Inspections	2,180,562	2,136,248	-	-	2,136,248	44,314	14,823	29,491
Office of Zoning Administration	432,854	426,102	-	-	426,102	6,752	-	6,752
Emergency management operations	158,483	167,179	-	-	167,179	(8,696)	-	(8,696)
Total public safety	61,678,309	60,968,052	69,954	-	61,038,006	640,303	1,017,032	(376,729)
Public works:								
Engineering and administration	10,756,748	10,577,917	20,355	-	10,598,272	158,476	82,601	75,875
Traffic engineering	1,601,518	1,501,947	13,700	-	1,515,647	85,871	34,300	51,571
Street maintenance	8,473,760	5,918,607	1,820,837	-	7,739,444	734,316	340,879	393,437
Bridges and structures	1,519,496	1,489,564	13,050	-	1,502,614	16,882	13,801	3,081
Bureau of Drainage	1,820,395	1,436,229	19,110	-	1,455,339	365,056	9,414	355,642
Street cleaning	507,084	497,641	-	-	497,641	9,443	32,209	(22,766)
Solid waste collection	15,214,443	15,152,992	-	-	15,152,992	61,451	-	61,451
Total public works	39,893,444	36,574,897	1,887,052	-	38,461,949	1,431,495	513,204	918,291
Parks:								
Parks and grounds maintenance	3,296,840	2,756,177	-	-	2,756,177	540,663	139,694	400,969
Buildings maintenance	4,428,444	4,570,195	-	-	4,570,195	(141,751)	2,100	(143,851)
Administration	665,278	624,645	-	-	624,645	40,633	2,477	38,156
Facilities Management - building	539,936	374,933	18,082	-	393,015	146,921	-	146,921
Parks, grounds, and building maintenance - warehouse	67,069	60,228	-	-	60,228	6,841	-	6,841
Parks, grounds, and building maintenance - work order	61,758	54,208	-	-	54,208	7,550	-	7,550
Total parks	9,059,325	8,440,386	18,082	-	8,458,468	600,857	144,271	456,586
Total expenditures and encumbrances	210,178,509	202,334,590	2,170,028	-	204,504,618	5,673,891	2,856,004	2,817,887
OTHER FINANCING USES								
Transfers to component unit:								
Public Schools	127,774,672	127,774,672	-	-	127,774,672	-	-	-

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule M-2, Continued

General Fund
 Schedule of Expenditures, Encumbrances, and Other Uses -
 Budget and Actual
 Year Ended June 30, 2004

	Appropriations	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay				
Transfers to other funds:							
Debt Service Fund	\$ 40,892,987	40,892,987	-	40,892,987	-	-	-
Capital Projects Fund	4,406,992	4,406,992	-	4,406,992	-	-	-
Virginia Public Assistance Fund	5,530,719	5,530,719	-	5,530,719	-	-	-
Community Services Fund	4,169,234	4,169,234	-	4,169,234	-	-	-
Interagency Consortium Fund	1,959,499	1,959,499	-	1,959,499	-	-	-
Community Corrections Fund	29,152	29,152	-	29,152	-	-	-
Fee Supported Activities Fund	50,000	50,000	-	50,000	-	-	-
Grants Fund	207,571	203,731	-	203,731	3,840	-	3,840
E-911 Operations Fund	1,271,361	1,287,739	-	1,287,739	(16,378)	-	(16,378)
Juvenile Detention Home Fund	495,562	496,128	-	496,128	(566)	-	(566)
Information Technology Fund	39,174	39,174	-	39,174	-	-	-
City Garage Fund	1,456,495	1,456,495	-	1,456,495	-	-	-
Total transfers to other funds	60,508,746	60,521,850	-	60,521,850	(13,104)	-	(13,104)
Total other financing uses	188,283,418	188,296,522	-	188,296,522	(13,104)	-	(13,104)
Total expenditures, encumbrances, and other financing uses	\$ 398,461,927	390,631,112	2,170,028	392,801,140	5,660,787	2,856,004	2,804,783

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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, 2004

	Revised Budget	Actual	Variance Positive (Negative)
REVENUES			
Investment income	\$ 900,000	167,165	(732,835)
Revenues from use of property	115,765	115,765	-
Intergovernmental revenues:			
Commonwealth of Virginia	222,481	221,433	(1,048)
Total revenues	1,238,246	504,363	(733,883)
EXPENDITURES			
Interest on general obligation bonds	19,458,518	18,898,546	559,972
Interest on literary loans	204,775	204,775	-
Arbitrage	-	90,439	(90,439)
Capital lease payments	1,500,154	1,500,153	1
Other debt expenditures	791,500	467,588	323,912
Redemption of general obligation bonds	22,932,773	22,932,773	-
Redemption of literary loans	549,493	549,493	-
Total expenditures	45,437,213	44,643,767	793,446
Deficiency of revenues under expenditures	(44,198,967)	(44,139,404)	59,563
OTHER FINANCING SOURCES (USES)			
Transfers from other funds:			
General Fund	40,892,987	40,892,987	-
Conference Center Fund	450,000	563,397	113,397
E-911 Operations Fund	1,500,154	1,500,153	(1)
Capital Projects Fund	-	439,864	439,864
Total transfers from other funds	42,843,141	43,396,401	553,260
Transfer from component unit - Public Schools Capital Projects Fund	844,326	1,049,422	205,096
General obligation refunding bonds issued	511,500	62,920,000	62,408,500
Premiums on refunding bonds issued	-	7,794,630	7,794,630
Payment to refunded bond escrow agent	-	(70,300,043)	(70,300,043)
Transfer to Capital Projects Fund	(800,740)	(800,740)	-
Total other financing sources (uses)	43,398,227	44,059,670	661,443
Deficiency of revenues and other financing sources under expenditures and other financing uses	(800,740)	(79,734)	721,006
Fund balance - beginning	25,033,549	25,033,549	-
Fund balance - ending	\$ 24,232,809	24,953,815	721,006

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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, 2004

Fund and Project	Appropriations	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year				
General construction projects:							
General government:							
1985 Borrowing Authority:							
Facilities high priority renewal/replacement	\$ 60,391	57,270	3,121	60,391	-	-	-
1990 Borrowing Authority:							
Infrastructure improvement (Economic Development)	15,350	-	-	-	15,350	-	15,350
1992 Borrowing Authority:							
Facilities high priority renewal/replacement	83,192	83,192	-	83,192	-	-	-
1995 Borrowing Authority:							
Thermal Storage central system	313	-	-	-	313	-	313
Bowers Hill maintenance center	43,507	43,507	-	43,507	-	-	-*
Butts Station maintenance center	4,526	4,526	-	4,526	-	-	-*
Americans with Disabilities Act	126,594	122,094	2,482	124,576	2,018	1,020	998
Western Branch planning study	93,100	93,089	-	93,089	11	-	11*
Infrastructure improvement (Economic Development)	297,785	-	-	-	297,785	-	297,785
Congestion mitigation air quality	46,781	-	-	-	46,781	-	46,781
Facilities high priority renewal/replacement	122,631	26,151	60,749	86,900	35,731	-	35,731
1996 Borrowing Authority:							
Butts Station maintenance center	560	560	-	560	-	-	-*
New industrial park (Economic Development)	144,239	144,239	-	144,239	-	-	-
Bowers Hill maintenance center	2,890	2,890	-	2,890	-	-	-*
Infrastructure improvement (Economic Development)	118,913	-	-	-	118,913	-	118,913
Tidewater Detention Home floor replacement	171,480	38,117	125,497	163,614	7,866	7,866	-
Facilities high priority renewal/replacement	25,338	17,944	-	17,944	7,394	-	7,394
Americans with Disabilities Act phase 2	47,542	-	-	-	47,542	-	47,542
1997 Borrowing Authority, 1998 Series:							
New industrial park	800,000	800,000	-	800,000	-	-	-
New Commerce Park	800,000	800,000	-	800,000	-	-	-
Prior commitments	423,680	423,680	-	423,680	-	-	-
Congestion mitigation air quality	22,650	-	-	-	22,650	-	22,650
Facilities high priority renewal/replacement	174,643	69,895	84,812	154,707	19,936	-	19,936
ARTS education building	55,000	-	-	-	55,000	-	55,000
Americans with Disabilities Act	247,881	252	114,588	114,840	133,041	-	133,041

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O (Continued)

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2004

Fund and Project	Appropriations	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year				
General construction projects, continued:							
General government, continued:							
Other funding sources:							
New Commerce Park	\$ 900,000	773,897	-	773,897	126,103	-	126,103
Undesignated utilities and water and sewer lines	13,120	-	-	-	13,120	-	13,120
City strategic plan	200,000	94,104	42,015	136,119	63,881	59,315	4,566
Prior CIB Commitments - Cedar Road	866,826	-	-	-	866,826	-	866,826
Infrastructure improvement	432,317	-	-	-	432,317	-	432,317
Greenbrier Mall Culvert	60,278	-	-	-	60,278	-	60,278
Americans with Disabilities Act	89,660	49,476	34,154	83,630	6,030	6,030	-
New business park	1,000,000	30,500	249,483	279,983	720,017	-	720,017
Undesignated utilities and water and sewer lines	482,340	-	-	-	482,340	-	482,340
Integrated financial management system	4,669,765	380,065	1,045,135	1,425,200	3,244,565	200,815	3,043,750
Infrastructure improvement (Economic Development)	67,952	-	-	-	67,952	-	67,952
Environment assessment remedial program	1,363,037	1,118,695	51,803	1,170,498	192,539	61,210	131,329
GASB 34 implementation	150,667	62,079	63,855	125,934	24,733	-	24,733
E-government initiative	500,000	278,799	192,421	471,220	28,780	8,650	20,130
Tidewater Detention Home floor replacement	65,520	14	37,926	37,940	27,580	3,740	23,840
Facilities high priority renewal/replacement	453,284	-	346,394	346,394	106,890	-	106,890
Chesapeake Airport improvement	703,400	157,166	82,793	239,959	463,441	-	463,441
Facilities high priority renewal/replacement	757	600	-	600	157	-	157
Cash processing system - Treasurer	293,590	619	49,518	50,137	243,453	5,513	237,940
Ortho photography	312,000	-	198,891	198,891	113,109	-	113,109
South Norfolk community improvement	114,098	-	-	-	114,098	-	114,098
City-wide undesignated drainage	193,531	115	30,000	30,115	163,416	-	163,416
Art feasibility study	30,000	6,352	-	6,352	23,648	13,090	10,558
City Jail repair and remediation	911,077	14,928	18,544	33,472	877,605	21,956	855,649
Campostella Community Center	590,000	359	260,530	260,889	329,111	153,225	175,886
Art feasibility study	80,000	80,000	-	80,000	-	-	-
Americans with Disabilities Act	2,458	-	-	-	2,458	-	2,458
Facilities high priority portables	95,000	-	95,000	95,000	-	-	-
Detention home space study	240,000	-	14,465	14,465	225,535	101,233	124,302
Facilities high priority renewal/replacement	396,000	-	-	-	396,000	-	396,000
Conference Center technical enhancements	100,000	-	100,000	100,000	-	-	-

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O (Continued)

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2004

Fund and Project	Appropriations	Expenditures		Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year			
Total	Total	Total	Total	Total	Total	Total
General construction projects, continued:						
General government, continued:						
Lease Revenue Bond:						
Municipal Center parking	\$ 21,165	-	3,905	17,260	395	16,865
Total general government	19,326,828	5,775,174	3,308,081	10,243,573	644,058	9,599,515
Department of Public Safety:						
1992 Borrowing Authority:						
Fuel tank leak prevention and detection	27,438	6,180	5,877	15,381	-	15,381
1993 Borrowing Authority:						
Congestion mitigation air quality	74,568	2,379	-	72,189	-	72,189
Fuel tank leak prevention and detection	122,518	-	73,369	49,149	31,937	17,212
1994 Borrowing Authority:						
Jail	22,872	11,000	-	11,872	5,279	6,593
Fuel tank leak prevention and detection	45,549	3,277	27,985	14,287	-	14,287
1996 Borrowing Authority:						
800 MHz digital radio system	20,000	20,000	-	20,000	-	- *
Fire station # 9 Brentwood	80,156	-	32,649	47,507	-	47,507
1997 Borrowing Authority, 2003A Series:						
Fire station # 9 Brentwood	2,081,000	-	694,055	1,386,945	1,011,032	375,913
1997 Borrowing Authority, 2001 Series:						
Training Academy firing range	2,240,000	2,229,828	10,169	2,239,997	-	3 *
Training Academy roof	60,000	39,049	-	20,951	-	20,951
Lease Revenue Bond:						
Jail annex	19,043	-	-	19,043	17,840	1,203
Other funding sources:						
800 MHz digital radio system	402,544	349,232	53,312	402,544	-	- *
Fire Station # 15	53,647	6,560	17,119	23,679	29,968	-
800 MHz - towers	3,535,078	3,535,078	-	3,535,078	-	- *
800 MHz digital radio system and towers	1,194,747	1,188,431	6,316	1,194,747	-	- *
Fire station # 9 Brentwood	213,188	12,026	25,742	37,768	12,200	163,220
3rd Police Precinct	336,000	294,896	12,094	306,990	-	29,010

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O (Continued)

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2004

Fund and Project	Appropriations	Expenditures		Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year			
		Total				
General construction projects, continued:						
Department of Public Safety, continued:						
Other funding sources, continued:						
800 MHz digital radio system	\$ 289,800	289,800	-	-	-	- *
Facility space	113,000	7,813	-	105,187	-	105,187 *
800 MHz digital radio system and towers	14,400,000	14,400,000	-	-	-	- *
Fire Station # 15	1,299	1,299	-	-	-	-
800 MHz tower demolition	163,594	-	-	163,594	58,599	104,995
Fire station # 9 Brentwood	6,656	-	6,656	-	-	-
		25,502,697	965,343	2,140,506	1,166,855	973,651
Total Department of Public Safety		25,502,697	965,343	2,140,506	1,166,855	973,651
Department of Public Works:						
1987 Road bond Referendum:						
Kempsville Road phase 2	2,465	-	-	2,465	-	2,465
1988 Road Bond Referendum:						
Battlefield AIW Bridge	248,463	60,200	188,263	-	-	-
1994 Road Bond Referendum, 1996 series:						
Cedar Road phase 4 and 5	227,020	197,227	24,131	5,662	4,860	802
Cedar Road phase 1, 2, and 3	4,869	4,869	-	-	-	- *
Johnstown Road	159,266	148,596	1,524	9,146	-	9,146 *
Battlefield - South	305,578	305,578	-	-	-	- *
Hanbury Road	108,807	101,407	2,005	5,395	-	5,395
George Washington Highway	14,574	14,574	-	-	-	- *
Canal Drive	52,417	52,417	-	-	-	- *
Jordan Bridge	44,300	44,300	-	11,249	-	11,249
Centerville/Land of Promise	78,232	75,758	-	2,474	-	2,474 *
Johnstown Road	134	134	-	-	-	- *
Centerville/Land of Promise	5,034	3,650	-	1,384	-	1,384 *
Battlefield/Johnstown/Hanbury	917,927	917,927	-	-	-	- *
Management and inspection fees	1,482,359	1,482,359	-	-	-	- *
Jordan Bridge repair	156,737	18,193	18,193	138,544	-	138,544
Cedar Road phase 1, 2, and 3	49,546	46,564	2,982	-	-	- *

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O (Continued)

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2004

Fund and Project	Appropriations	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year				
General construction projects, continued:							
Department of Public Works, continued:							
1994 Road Bond Referendum, 1996 series, continued:							
Battlefield Boulevard AIW Bridge	\$ 259,681	51,840	207,841	259,681	-	-	- *
Chesapeake Expressway - Mt. Pleasant Road	40,400	40,400	-	40,400	-	-	- *
Kempsville Road phase 1	73,600	73,600	-	73,600	-	-	- *
Kempsville Road phase 2	28,355	23,048	-	23,048	5,307	-	5,307
Master Road plan study	10,000	10,000	-	10,000	-	-	-
Parker Road configuration	172,977	85,053	46,899	131,952	41,025	16,025	25,000
Portsmouth Boulevard phase 4	14,600	3,008	-	3,008	11,592	-	11,592
Undesignated Public Works project	107,500	2,305	8,761	111,066	96,434	-	96,434
Volvo Parkway	8,600	-	-	-	8,600	-	8,600
Gilmerton Bridge internal repairs	356,305	356,305	-	356,305	-	-	- *
Congestion mitigation air quality program	11,725	-	-	-	11,725	-	11,725
Dock Landing Road Extension Bridge	50,000	50,000	-	50,000	-	-	-
Kempsville Road pump station relocation	2,700	-	-	-	2,700	-	2,700
Various traffic signals	150,000	53,724	19,660	73,384	76,616	1,037	75,579
Western Branch Middle School	130,000	119,268	-	119,268	10,732	-	10,732 *
Wellons-Forehand overpass	158,131	158,131	-	158,131	-	-	-
Cedar Road 4, 5, and 6 construction	140,274	-	140,274	140,274	-	-	-
Battlefield AIW Bridge	200,055	200,055	-	200,055	-	-	-
Kempsville Road phase 2	14,841	-	-	-	14,841	-	14,841
1994 Road Bond Referendum, 1998 Series:							
Hanbury Road	559,974	555,326	4,648	559,974	-	-	-
George Washington Highway	26,345	26,345	-	26,345	-	-	- *
Canal Drive/George Washington/Military Highway	307,200	307,200	-	307,200	-	-	- *
Cedar Road phase 1, 2, 3, 4, and 5	1,637,921	1,628,608	5,893	1,634,501	3,420	3,420	-
Johnstown Road	47,257	32,795	1,096	33,891	13,366	-	13,366 *
George Washington	53,443	53,443	-	53,443	-	-	- *
Cedar Road phase 1 and 2	58,855	58,855	-	58,855	-	-	- *
Congestion mitigation air quality program	14,630	-	-	-	14,630	-	14,630
Wellons-Forehand overpass	73,600	66,954	6,646	73,600	-	-	-
Mt. Pleasant on-ramp	23,645	23,645	-	23,645	-	-	- *

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O (Continued)

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2004

Fund and Project	Appropriations	Expenditures		Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year			
			Total			
General construction projects, continued:						
Department of Public Works, continued:						
1994 Road Bond Referendum, 1998 Series, continued:						
Kempsville Road phase 2	\$ 2,282	-	-	2,282	-	2,282
Battlefield AIW Bridge	281,777	-	281,777	-	-	-
1994 Road Bond Referendum, 2003 series:						
Cedar Road 4 and 5	9,300,000	-	472,503	8,827,497	8,827,497	-
Cedar Road 4 and 5 land	1,200,000	109,000	829,934	261,066	-	261,066
1984 Borrowing Authority:						
Kempsville Road phase 2	3,542	-	-	3,542	-	3,542
1986 Borrowing Authority:						
Facilities high priority renewal/replacement	7,674	7,674	-	-	-	-
1987 Borrowing Authority:						
Gum Road multi-use	15,684	-	-	15,684	-	15,684
Kempsville Road phase 2	2,687	-	-	2,687	-	2,687
Fernwood Farms	5,511	-	-	5,511	-	5,511
1989 Borrowing Authority:						
Master road plan study	141,601	133,112	-	8,489	-	8,489
Portsmouth Boulevard phase 4	31,211	31,211	-	-	-	-
Atlantic Avenue 3 - Campostella	765	765	-	-	-	-
City strategic plan	50,000	50,000	-	-	-	-
Gum Road multi-use	688	-	-	688	-	688
Battlefield AIW Bridge	124,683	-	124,683	-	-	-
Fuel tank leak prevention and detection	4,495	4,495	-	-	-	-
Fernwood Farms	72,994	-	-	72,994	-	72,994
1990 Borrowing Authority:						
Kempsville Road phase 2	582	-	250	332	-	332
Kempsville Road phase 2	1,043	-	1,043	-	-	-
Portsmouth Boulevard phase 4	1,909	-	77	1,832	-	1,832
1992 Borrowing Authority:						
Atlantic Avenue phase 3	10,271	-	10,271	-	-	-
Gilmerton Bridge rehabilitation	19,260	19,260	-	-	-	-
Undesignated Public Works projects	5,344	5,344	-	-	-	-

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O (Continued)

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2004

Fund and Project	Appropriations	Expenditures		Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year			
			Total			
General construction projects, continued:						
Department of Public Works, continued:						
1992 Borrowing Authority, continued:						
Portsmouth Boulevard phase 4	\$ 23,833	23,833	-	-	-	-
Gum Road multi-use	28,187	-	-	28,187	-	28,187
Battlefield AIW Bridge	54,574	-	54,574	-	-	-
Fernwood Farms	13,846	-	-	13,846	-	13,846
1993 Borrowing Authority:						
Gilmerton Bridge	254	254	-	-	-	-
Dock Landing Road extension	6,995	6,995	-	-	-	-
Portsmouth Boulevard phase 4	16,029	16,029	-	-	-	-
Various traffic signals	362,139	361,395	744	362,139	-	-
Poindexter Street improvements	6,809	6,809	-	-	-	-
Facilities high priority renewal/replacement	3,508	664	2,844	3,508	-	-
Portsmouth Boulevard phase 4	18,507	-	-	18,507	-	18,507
Battlefield AIW Bridge	20,306	-	20,306	-	-	-
1994 Borrowing Authority:						
Gilmerton Bridge	7,922	7,922	-	-	-	-
Various traffic signals	91,781	91,347	-	434	434	-
Kempsville Road PS relocation	7,860	4,060	347	3,453	-	3,453
Tyre Neck Road	3,270	-	-	3,270	-	3,270
Facilities high priority renewal/replacement	7,611	1,440	6,171	7,611	-	-
Portsmouth phase 4	13,141	-	-	13,141	-	13,141
Battlefield AIW Bridge	86,125	-	86,125	-	-	-
1995 Borrowing Authority:						
Bainbridge Boulevard drainage	16,670	-	-	16,670	-	16,670
Oak Grove Connector	85,640	76,558	-	9,082	-	9,082
Street lights	560,626	497,027	63,559	40	-	40
Cedar Road phase 4 and 5	88,327	42,403	-	45,924	45,924	-
Undesignated Public Works projects	48,490	46,423	2,067	-	-	-
Gilmerton Bridge improvements	23,811	23,811	-	-	-	-
Portsmouth Boulevard phase 4	72,890	72,177	-	713	-	713
Various traffic signals	306,891	219,565	87,326	-	-	-

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O (Continued)

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2004

Fund and Project	Appropriations	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year				
General construction projects, continued:							
Department of Public Works, continued:							
1995 Borrowing Authority, continued:							
Poindexter Street improvement	\$ 1,510	1,500	10	1,510	-	-	-
Gum Road multi-path	25,000	-	-	-	25,000	-	25,000
Portsmouth Boulevard phase 4	31,754	-	-	-	31,754	-	31,754
Battlefield AIW Bridge	115,066	-	115,066	115,066	-	-	-
1996 Borrowing Authority:							
Providence Road	2,000	-	1,265	1,265	735	-	735 *
Dock Landing bikeway	20,133	165	-	165	19,968	-	19,968
Street lights	155,395	-	105,431	105,431	49,964	-	49,964
Atlantic Avenue/Battlefield Boulevard phase 4	89,117	-	-	-	89,117	-	89,117
Wadsworth Overpass	14,850	-	110	110	14,740	-	14,740 *
Cedar Road	62,725	62,725	-	62,725	-	-	-
Poindexter Street	42,500	-	-	-	42,500	-	42,500
Kempsville Road phase 2	20,304	20,304	-	20,304	-	-	-
Kempsville Road phase 3	110,056	110,056	-	110,056	-	-	-
Gilmerton Bridge	8,900	8,900	-	8,900	-	-	- *
Dock Landing Road extension	44,667	18,700	-	18,700	25,967	-	25,967
Cedar Road	225,368	-	-	-	225,368	75,000	150,368
Fernwood farms side	93,022	-	-	-	93,022	-	93,022
Atlantic Avenue 3 - Campostella	23,164	-	23,165	23,165	(1)	-	(1) *
Portsmouth Boulevard phase 4	26,601	-	-	-	26,601	-	26,601
Route 17/ M C Parkway/Old Mill	400,342	400,256	86	400,342	-	-	- *
Undesignated Public Works projects	6,167	6,167	-	6,167	-	-	-
Kempsville Road PS relocation	9,640	24,600	-	24,600	9,640	-	9,640
Gilmerton Bridge	24,600	-	-	-	-	-	- *
Battlefield Boulevard AIW Bridge	479,938	-	479,938	479,938	-	-	-
Traffic sign and intersection	26,748	-	-	-	26,748	-	26,748 *
1997 Borrowing Authority, 1998 Series:							
Atlantic Avenue phase 3	40,135	-	-	-	40,135	-	40,135 *
Atlantic Avenue phase 4	1,953	-	-	-	1,953	-	1,953
Kempsville Road phase 1	12,400	12,400	-	12,400	-	-	- *

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O (Continued)

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2004

Fund and Project	Appropriations	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year				
General construction projects, continued:							
Department of Public Works, continued:							
1997 Borrowing Authority, 1998 Series, continued:							
Gilmerton Bridge rehabilitation	\$ 18,350	18,350	-	18,350	-	-	- *
Dock Landing - bikeway	72,000	-	-	-	72,000	-	72,000
Tyre Neck Road	530	-	-	-	530	-	530
Gilmerton Bridge rehabilitation	326,749	52,290	96,927	149,217	177,532	-	177,532
Traffic sign and intersection	47,252	-	-	-	47,252	-	47,252
Cedar Road phase 4 and 5	929,726	-	59,523	59,523	870,203	870,204	(1)
Other funding sources:							
Street lights	43,716	-	-	-	43,716	-	43,716
Providence Road	132	-	-	-	132	-	132 *
Kempsville Road	58,715	37,630	12,223	49,853	8,862	-	8,862 *
Bridge replacement - phase 1	236,920	129,399	-	129,399	107,521	-	107,521 *
Cedar Road phase 1 and 2	104,298	76,907	2,822	79,729	24,569	-	24,569 *
Battlefield Boulevard AIW Bridge	1,986,012	1,828	617,145	618,973	1,367,039	-	1,367,039
Gum Road multi-use	27,562	-	-	-	27,562	-	27,562
Cedar Road phase 4 and 5	3,659,632	-	1,029,068	1,029,068	2,630,564	1,098,121	1,532,443
Chesapeake Expressway - Mt. Pleasant Road	159,600	141,461	-	141,461	18,139	-	18,139 *
Gilmerton Bridge - interim	363,695	112,211	-	112,211	251,484	-	251,484
Infrastructure improvements	7,405	-	-	-	7,405	-	7,405
Repair and maintenance - roads	316,803	57,957	2,329	60,286	256,517	-	256,517
Cedar Road 4 and 5	850,000	633,826	77,278	711,104	138,896	138,896	-
Kempsville Road pump station relocation	4,840	-	-	-	4,840	-	4,840
Kempsville Road phase 2	285,815	-	-	-	285,815	-	285,815
Various traffic signals	269,189	50,035	94,650	144,685	124,504	-	124,504
Volvo/Progressive Drive signal	422	-	421	421	1	-	1
Portsmouth Boulevard phase 4	1,985	-	-	-	1,985	-	1,985
Master Road Plan	10,000	-	-	-	10,000	-	10,000
Undesignated Public Works projects	50,000	-	18,724	18,724	31,276	73	31,203
Jordan Bridge	400,000	-	-	-	400,000	306,719	93,281
Fernwood Farms sidewalk	4,627	-	-	-	4,627	-	4,627

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O (Continued)

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2004

Fund and Project	Appropriations	Expenditures			Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year	Total			
General construction projects, continued:							
Department of Public Works, continued:							
Other funding sources, continued:							
Volvo Parkway	\$ 16,000	-	-	-	16,000	-	16,000
Parker Road configuration	157,123	-	-	-	157,123	-	157,123
Kempsville Road phase 3	335,201	-	8,480	8,480	326,721	-	326,721
Salt storage building	5,000	-	-	-	5,000	-	5,000
Hanbury Road Interchange	221,915	-	-	-	221,915	-	221,915
Poindexter Street	106,431	-	23,233	23,233	83,198	23,326	59,872
Chesapeake Virginia Beach Fentress land study	25,000	-	25,000	25,000	-	-	-
Atlantic Avenue phase 3	61,885	-	-	-	61,885	-	61,885
Atlantic Avenue phase 4	48,115	-	-	-	48,115	-	48,115
Rt 17/ Mill Creek Parkway/ Old Mill Road	225,368	-	-	-	225,368	-	225,368
Parker Road pavement widening	25,000	-	25,000	25,000	-	-	-
Traffic sign and intersection	106,000	-	-	-	106,000	-	106,000
Pro-rata drainage projects:							
Military Highway drainage culvert	303,500	281,120	22,290	303,410	90	-	90 *
Master drainage plan	1,610,000	-	14,171	14,171	1,595,829	77,661	1,518,168
Greenbrier Mall culvert	300,500	-	49,771	49,771	250,729	-	250,729
Construction reimbursement - Other:							
Volvo/Progressive Drive signal	30,000	2,967	2,248	5,215	24,785	-	24,785
Intersection improvements	22,489	-	-	-	22,489	-	22,489
Traffic signal - Cedar Commons	171,807	6,324	4,816	11,140	160,667	-	160,667
Lamberts Trail Drainage Project	41,483	35,704	3,528	39,232	2,251	-	2,251
Construction reimbursement - VDOT:							
Battlefield Boulevard AIW Bridge	4,134,000	4,134,000	-	4,134,000	-	-	-
Greenbrier Parkway intersection improvements	148,000	24,769	25,384	50,153	97,847	24,787	73,060
Gum Road multi-use	500,000	42,657	-	42,657	457,343	40,946	416,397
Poindexter Street improvement	840,000	25,682	96,958	122,640	717,360	93,305	624,055
Rt. 104 Steel Bridge	1,700,000	29,250	213,064	242,314	1,457,686	1,128,352	329,334
Signal system upgrade	3,016,000	425,160	924,410	1,349,570	1,666,430	1,469,168	197,262
Backwoods Bridge repair	198,328	18,424	-	18,424	179,904	-	179,904 *

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O (Continued)

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2004

Fund and Project	Appropriations	Expenditures		Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year			
			Total			
General construction projects, continued:						
Department of Public Works, continued:						
Construction reimbursement - VDOT, continued:						
Rt. 104 Steel Bridge	\$ 242,186	-	-	242,186	-	242,186
Bridge replacement	102,775	-	-	102,775	-	102,775 *
Battlefield and Great Bridge Boulevard	26,109	592	592	25,517	-	25,517 *
Great Bridge Battlefield, Waterway Visitor Center, and Trail	120,000	-	-	120,000	-	120,000
Kempsville widening project	95,500	-	89,469	6,031	5,404	627
Cedar Road bike path	122,405	-	-	122,405	73,033	49,372
Battlefield Boulevard Emergency Preparation	51,986	-	-	51,986	36,527	15,459
Volvo/Progressive Drive signal	210,253	-	210,188	65	-	65
Total Department of Public Works	49,532,025	16,299,357	7,197,608	23,496,965	14,360,719	11,674,341
Department of Libraries:						
1996 Borrowing Authority:						
Indian River Library expansion	34,000	34,000	-	34,000	-	-
Other funding sources:						
Indian River Library expansion	3,642,700	970,105	1,328,922	2,299,027	1,023,716	319,957
Total Department of Libraries	3,676,700	1,004,105	1,328,922	2,333,027	1,023,716	319,957
Department of Parks, Recreation, and Property Maintenance:						
1994 Borrowing Authority:						
Waterstone/Peek Estate Park	16,927	-	-	16,927	-	16,927
1995 Borrowing Authority:						
Riprap - Elizabeth River Park	50,100	100	50,000	50,100	-	-
Centerville Turnpike Park	70,900	-	-	70,900	70,861	39
1996 Borrowing Authority:						
Park land acquisition	1,309,895	1,239,923	-	1,239,923	-	69,972
Other funding sources:						
Develop new park	60,868	-	-	60,868	-	- *
Cedar Crossings Park	14,669	-	-	14,669	14,669	-

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O (Continued)

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2004

Fund and Project	Appropriations	Expenditures		Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year			
			Total			
General construction projects, continued:						
Department of Parks, Recreation, and Property Maintenance, continued:						
Other funding sources, continued:						
Camelot Park	\$ 37,168	-	-	37,168	37,168	-
Cedar Crossings	47,332	-	-	47,332	36,889	10,443
Camposite Ila Square Commercial Center	470,000	-	-	470,000	-	470,000
Develop new park	25,649	-	-	25,649	-	25,649
New parks open space	232,920	191,269	25,969	217,238	-	15,682
Oak Grove play area	40,560	27,294	13,266	40,560	-	-
Centerville Turnpike park	11,012	-	-	11,012	-	11,012
River's Edge play area	45,000	-	-	45,000	27,248	17,752
Marsh Creek play area	33,005	-	-	33,005	27,248	5,757
Emerald Lakes picnic shelter	18,000	-	-	18,000	12,786	5,214
Oak Grove Lake park	80,000	-	-	80,000	-	80,000
Western Branch dog park	15,000	-	-	15,000	-	15,000
Southwestern basketball court	20,000	-	-	20,000	-	20,000
State property camp 2	100,000	-	-	100,000	-	100,000
Kempsville Road phase 2	20,000	-	-	20,000	-	20,000
Volvo Parkway	28,740	-	-	28,740	-	28,740
Stonegate park	22,000	-	-	22,000	-	22,000
Bryant Farms park	27,000	-	-	27,000	-	27,000
Elizabeth River park	16,995	-	-	16,995	16,995	-
Mirar's Plantation	45,969	-	27,540	27,540	17,329	1,100
Chesapeake City park	40,000	-	33,388	33,388	-	6,612
Sawyer's Mill park	38,963	-	38,963	38,963	-	-
Georgetown Elementary School - lights	105,000	-	-	105,000	-	105,000
Total Department of Parks, Recreation, and Property Maintenance	3,043,672	1,519,454	189,126	1,708,580	261,193	1,073,899
Total general construction projects	101,081,922	46,994,938	12,989,080	59,984,018	17,456,541	23,641,363

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O (Continued)

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2004

Fund and Project	Appropriations	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year				
Revenue sharing projects:							
General government:							
Facilities high priority renewal/replacement	\$ 2,464	-	-	-	2,464	-	2,464
Total general government	2,464	-	-	-	2,464	-	2,464
Department of Public Works:							
Route 168, South of Hillwell	27,207	27,207	-	27,207	-	-	- *
Street lights	21,254	7,648	-	7,648	13,606	-	13,606
Master road plan study	8,399	8,399	-	8,399	-	-	-
Gum Road multi-use	27,879	-	-	-	27,879	-	27,879
Total Department of Public Works	84,739	43,254	-	43,254	41,485	-	41,485
Total revenue sharing projects	87,203	43,254	-	43,254	43,949	-	43,949
Total general construction projects and revenue sharing projects	101,169,125	47,038,192	12,989,080	60,027,272	41,141,853	17,456,541	23,685,312
School capital project:							
2003A Virginia Public School Authority:							
Grassfield High School	2,400,000	-	443,517	443,517	1,956,483	1,788,253	168,230
Community development projects:							
Campostella	3,675,713	2,564,872	1,058,418	3,623,290	52,423	-	52,423
Queen City	17,946	4,652	-	4,652	13,294	-	13,294
Total community development projects	3,693,659	2,569,524	1,058,418	3,627,942	65,717	-	65,717
Lease revenue bonds (trustee):							
Circuit Court building	-	1,132,082	116,938	1,249,020	(1,249,020)	-	(1,249,020)
City Jail addition/renovation	-	264,723	17,434	282,157	(282,157)	-	(282,157)
Total lease revenue bonds (trustee)	-	1,396,805	134,372	1,531,177	(1,531,177)	-	(1,531,177)

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O (Continued)

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2004

Fund and Project	Appropriations	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year				
Supplemental agreements (trustee):							
Oak Grove Connector	\$ -	2,211,066	250	2,211,316	(2,211,316)	-	(2,211,316)
Total expenditures	\$ 107,262,784	53,215,587	14,625,637	67,841,224	39,421,560	19,244,794	20,176,766
Less completed projects				(27,960,505)			
Construction in progress				\$ 39,880,719			

* Completed projects

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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 to 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.

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.

Juvenile Detention Home 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 designated for education.



CITY OF CHESAPEAKE, VIRGINIA

Schedule P-1

Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2004

	Special Revenue Funds						
	Virginia Public Assistance	Community Services	CSB of Chesapeake, Inc.	Conference Center	Community Development	Interagency Consortium	Community Corrections
ASSETS							
Cash and temporary investments	\$ -	3,554,330	-	1,271,333	108,214	1,109,304	55,927
Intergovernmental revenues due from:							
Commonwealth of Virginia	356,161	-	-	-	-	629,825	-
Federal government	858,503	-	-	-	200,546	-	-
Receivables:							
Accounts receivable	-	-	-	132,513	-	3,490	-
Other	-	-	-	-	20,000	-	-
Restricted assets:							
Capital construction:							
Cash and temporary investments	-	-	1,304,590	-	-	-	-
Cash and temporary investments with trustee	-	-	4,773,462	-	-	-	-
Total assets	1,214,664	3,554,330	6,078,052	1,403,846	328,760	1,742,619	55,927
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	206,605	166,906	-	111,407	92,830	643,625	2,420
Deposits	-	-	-	20,736	-	-	-
Accrued expenditures	-	-	-	-	-	-	-
Deferred revenues	-	207,119	-	-	-	-	-
Due to other funds	287,233	-	-	317,009	-	-	-
Total liabilities	493,838	374,025	-	449,152	92,830	643,625	2,420
Fund balances							
Reserved:							
Expendable	130,743	446,076	-	43,063	63,750	-	8,412
Nonexpendable	-	-	-	-	-	-	-
Unreserved:							
Designated	-	-	6,078,052	471,591	-	-	-
Undesignated	590,083	2,734,229	-	440,040	172,180	1,098,994	45,095
Total fund balances	720,826	3,180,305	6,078,052	954,694	235,930	1,098,994	53,507
Total liabilities and fund balances	\$ 1,214,664	3,554,330	6,078,052	1,403,846	328,760	1,742,619	55,927

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-1, Continued

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2004

	Special Revenue Funds				Permanent Funds			Total Nonmajor Governmental Funds
	Fee Supported Activities	Grants	E-911 Operations	Juvenile Detention Home	Poor	Carney		
ASSETS								
Cash and temporary investments	\$ 323,657	3,405,658	43,368	33,060	139,679	11,078	10,055,608	
Intergovernmental revenues due from:								
Commonwealth of Virginia	-	259,346	-	571,563	-	-	1,816,895	
Federal government	-	794,929	-	-	-	-	1,853,978	
Receivables:								
Accounts receivable	1,617	-	273,778	618,462	-	-	1,029,860	
Other	-	-	-	-	-	-	20,000	
Restricted assets:								
Capital construction:								
Cash and temporary investments	-	-	-	-	-	-	1,304,590	
Cash and temporary investments with trustee	-	-	-	-	-	-	4,773,462	
Total assets	323,274	4,459,933	317,146	1,223,085	139,679	11,078	20,854,393	
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable	665	172,742	37,743	2,202	-	-	1,437,145	
Deposits	-	-	-	-	-	-	20,736	
Accrued expenditures	-	-	5,490	36,930	-	-	42,420	
Deferred revenues	-	-	98,752	10,236	-	-	316,107	
Due to other funds	-	-	-	741,681	-	-	1,345,923	
Total liabilities	665	172,742	141,985	791,049	-	-	3,162,331	
Fund balances								
Reserved:								
Expendable	12,400	919,210	1,732	22,955	-	-	1,648,341	
Nonexpendable	-	-	-	-	11,295	1,500	12,795	
Unreserved:								
Designated	137,506	-	-	-	-	-	6,687,149	
Undesignated	174,703	3,367,981	173,429	409,081	128,384	9,578	9,343,777	
Total fund balances	324,609	4,287,191	175,161	432,036	139,679	11,078	17,692,062	
Total liabilities and fund balances	\$ 323,274	4,459,933	317,146	1,223,085	139,679	11,078	20,854,393	

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-2

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
 Nonmajor Governmental Funds
 Year Ended June 30, 2004

	Special Revenue Funds						
	Virginia Public Assistance	Community Services	CSB of Chesapeake, Inc.	Conference Center	Community Development	Interagency Consortium	Community Corrections
REVENUES							
Consumer telephone tax E-911	-	-	-	-	-	-	-
Restaurant food tax	-	-	-	1,397,638	-	-	-
Lodging sales tax	-	-	-	422,328	-	-	-
Intergovernmental revenues:							
Commonwealth of Virginia	3,759,985	4,443,635	-	-	-	1,775,496	425,324
Federal Government	7,714,105	1,220,484	-	-	2,311,338	108,194	-
Recovered costs	13,309	316	-	2,390	-	16,101	-
Investment income	874	35,567	22,096	12,672	-	11,100	560
Charges for services	999	2,119,024	-	2,539,560	-	-	-
Miscellaneous local revenues	-	-	-	1,147	-	-	-
Program income	-	-	-	-	284,699	-	-
Total revenues	11,489,272	7,819,026	22,096	4,375,735	2,596,037	1,910,891	425,884
EXPENDITURES							
Current:							
General government	-	-	-	3,397,331	-	-	454,305
Public safety	-	-	-	-	-	-	-
Parks	-	-	-	-	-	-	-
Public welfare	16,745,758	10,941,106	184,044	-	1,725,642	3,417,323	-
Capital outlay	-	97,590	-	16,823	508,133	-	-
Total expenditures	16,745,758	11,038,696	184,044	3,414,154	2,233,775	3,417,323	454,305
Excess (deficiency) of revenues over (under) expenditures	(5,256,486)	(3,219,670)	(161,948)	961,581	362,262	(1,506,432)	(28,421)
OTHER FINANCING SOURCES (USES)							
Transfers from other funds	6,030,719	4,169,234	1,300,000	-	-	1,959,499	29,152
Lease revenue bonds issued	-	-	4,940,000	-	-	-	-
Section 108 loan funds	-	-	-	-	720,000	-	-
Transfers to other funds	(116,056)	(1,346,136)	-	(576,502)	(1,058,418)	(534,055)	(560)
Total other financing sources (uses)	5,914,663	2,823,098	6,240,000	(576,502)	(338,418)	1,425,444	28,592
Net change in fund balances	658,177	(396,572)	6,078,052	385,079	23,844	(80,988)	171
Fund balance - beginning	62,649	3,576,877	-	569,615	212,086	1,179,982	53,336
Fund balance - ending	\$ 720,826	\$ 3,180,305	\$ 6,078,052	\$ 954,694	\$ 235,930	\$ 1,098,994	\$ 53,507

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-2, Continued

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
 Nonmajor Governmental Funds
 Year Ended June 30, 2004

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Fee Supported Activities	Grants	E-911 Operations	Juvenile Detention Home	Poor	Carney	
REVENUES							
Consumer telephone tax E-911	\$ -	-	3,161,354	-	-	-	3,161,354
Restaurant food tax	-	-	-	-	-	-	1,397,638
Lodging sales tax	-	-	-	-	-	-	422,328
Intergovernmental revenues:							
Commonwealth of Virginia	-	721,642	436,841	2,398,602	-	-	13,961,525
Federal Government	-	4,378,554	-	12,409	-	-	15,745,084
Recovered costs	-	-	-	3,741,133	-	-	3,773,249
Investment income	3,239	2,190	449	-	1,521	269	90,537
Charges for services	101,770	-	-	-	-	-	4,761,353
Miscellaneous local revenues	-	-	-	-	-	-	1,147
Program income	-	-	-	-	-	-	284,699
Total revenues	105,009	5,102,386	3,598,644	6,152,144	1,521	269	43,598,914
EXPENDITURES							
Current:							
General government	-	1,022,467	-	6,340,657	-	-	11,214,760
Public safety	35,979	1,245,463	3,172,326	-	-	-	4,453,768
Parks	-	282,734	-	-	-	-	282,734
Public welfare	-	974,126	-	-	-	-	33,987,999
Capital outlay	-	312,943	38,295	-	-	-	973,784
Total expenditures	35,979	3,837,733	3,210,621	6,340,657	-	-	50,913,045
Excess (deficiency) of revenues over (under) expenditures	69,030	1,264,653	388,023	(188,513)	1,521	269	(7,314,131)
OTHER FINANCING SOURCES (USES)							
Transfers from other funds	50,000	220,833	1,287,739	621,583	-	-	15,668,759
Lease revenue bonds issued	-	-	-	-	-	-	4,940,000
Section 108 loan funds	-	-	-	-	-	-	720,000
Transfers to other funds	(3,239)	-	(1,500,601)	(1,034)	-	-	(5,136,601)
Total other financing sources (uses)	46,761	220,833	(212,862)	620,549	-	-	16,192,158
Net change in fund balances	115,791	1,485,486	175,161	432,036	1,521	269	8,878,027
Fund balance - beginning	208,818	2,801,705	-	-	138,158	10,809	8,814,035
Fund balance - ending	\$ 324,609	4,287,191	175,161	432,036	139,679	11,078	17,692,062

CITY OF CHESAPEAKE, VIRGINIA

Virginia Public Assistance Fund

Schedule of Revenues and Other Financing Sources - Budget and Actual

Year Ended June 30, 2004

	Revised Budget	Actual	Variance Positive (Negative)
REVENUES			
Intergovernmental revenues:			
Commonwealth of Virginia	\$ 3,736,768	3,759,985	23,217
Federal government	8,104,054	7,714,105	(389,949)
Total intergovernmental revenues	11,840,822	11,474,090	(366,732)
Recovered costs	-	13,309	13,309
Charges for services	-	999	999
Investment income	-	874	874
Total revenues	11,840,822	11,489,272	(351,550)
OTHER FINANCING SOURCES			
Transfer from the General Fund	5,530,719	5,530,719	-
Transfer from Interagency Consortium	500,000	500,000	-
Total other financing sources	6,030,719	6,030,719	-
Total revenues and other financing sources	\$ 17,871,541	17,519,991	(351,550)

CITY OF CHESAPEAKE, VIRGINIA

Virginia Public Assistance Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2004

	Revised Budget	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay				
EXPENDITURES							
Public welfare:							
Bureau of Public Assistance	\$ 3,741,530	3,963,792	-	3,963,792	(222,262)	-	(222,262)
Administration	8,997,335	8,855,530	-	8,855,530	141,805	24,315	117,490
Employment Service Program/VIEW	3,683,921	3,121,592	-	3,121,592	562,329	106,428	455,901
Food Stamp Administration	881,157	804,844	-	804,844	76,313	-	76,313
Social Services grants	8,298	-	-	-	8,298	-	8,298
Total expenditures and encumbrances	\$ 17,312,241	16,745,758	-	16,745,758	566,483	130,743	435,740

CITY OF CHESAPEAKE, VIRGINIA

Community Services Fund
 Schedule of Revenues and Other Financing Source - Budget and Actual
 Year Ended June 30, 2004

	Revised Budget	Actual	Variance Positive (Negative)
REVENUES			
Intergovernmental revenues:			
From the Commonwealth of Virginia:			
Substance abuse grants	\$ 718,090	749,532	31,442
Mental health grants	3,506,693	3,137,908	(368,785)
Mental retardation grants	550,000	556,195	6,195
Total from the Commonwealth of Virginia	4,774,783	4,443,635	(331,148)
From the Federal government:			
Substance abuse and mental health and retardation grant	1,282,919	1,220,484	(62,435)
Charges for services:			
Mental health fees	1,107,581	1,050,555	(57,026)
Mental retardation fees	456,479	627,033	170,554
Mental retardation Medicaid waivers	324,072	230,081	(93,991)
Substance abuse fees	171,016	211,355	40,339
Total charges for services	2,059,148	2,119,024	59,876
Recovered costs	-	316	316
Investment income	-	35,567	35,567
Total revenues	8,116,850	7,819,026	(297,824)
OTHER FINANCING SOURCE			
Transfer from the General Fund	4,169,234	4,169,234	-
Total revenues and other financing source	\$ 12,286,084	11,988,260	(297,824)

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-6

Community Services Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2004

	Revised Budget	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay				
EXPENDITURES - Public welfare	\$ 13,998,259	10,941,106	97,590	11,038,696	2,959,563	446,076	2,513,487
Total expenditures and encumbrances	\$ 13,998,259	10,941,106	97,590	11,038,696	2,959,563	446,076	2,513,487

CITY OF CHESAPEAKE, VIRGINIA

Conference Center Fund
 Schedule of Revenues - Budget and Actual
 Year Ended June 30, 2004

	Revised Budget	Actual	Variance Positive (Negative)
REVENUES			
Restaurant food tax	\$ 1,173,000	1,397,638	224,638
Lodging sales tax	342,000	422,328	80,328
Recovered costs	6,000	2,390	(3,610)
Investment income	-	12,672	12,672
Charges for services	2,323,000	2,539,560	216,560
Miscellaneous revenues	2,000	1,147	(853)
Total revenues	\$ 3,846,000	4,375,735	529,735

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-8

Conference Center Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2004

	Revised Budget	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay				
EXPENDITURES - General government	\$ 3,457,592	3,397,331	16,823	3,414,154	43,438	43,063	375
Total expenditures and encumbrances	\$ 3,457,592	3,397,331	16,823	3,414,154	43,438	43,063	375

Community Development Fund, Interagency Consortium Fund, Community Corrections Fund,
 Fee Supported Activities Fund, Grants Fund, E-911 Operations Fund, and Juvenile Detention Home Fund
 Schedule of Revenues and Other Financing Sources - Budget and Actual
 Year Ended June 30, 2004

	Revised Budget	Actual	Variance Positive (Negative)
Community Development Fund			
Revenues			
Intergovernmental revenues from the Federal government:			
Community Development Block grant	\$ 1,506,000	2,033,128	527,128
Home Rehabilitation Program	697,329	278,210	(419,119)
Program income	145,825	284,699	138,874
Total revenues	2,349,154	2,596,037	246,883
Other financing source - Section 108 loan funds received	720,000	720,000	-
Total revenues and other financing source	\$ 3,069,154	3,316,037	246,883
Interagency Consortium Fund			
Revenues			
Intergovernmental revenues:			
Commonwealth of Virginia	\$ 1,614,385	1,775,496	161,111
Federal government	108,194	108,194	-
Recovered costs	1,500	16,101	14,601
Investment income	-	11,100	11,100
Total revenues	1,724,079	1,910,891	186,812
Other financing source - transfer from the General Fund	1,959,499	1,959,499	-
Total revenues and other financing source	\$ 3,683,578	3,870,390	186,812
Community Corrections Fund			
Revenues			
Intergovernmental revenues from the Commonwealth of Virginia:			
Community Corrections Act	\$ 425,324	425,324	-
Investment income	-	560	560
Total revenues	425,324	425,884	560
Other financing source - transfer from the General Fund	29,152	29,152	-
Total revenues and other financing source	\$ 454,476	455,036	560
Fee Supported Activities Fund			
Revenues			
Charges for services	\$ -	101,770	101,770
Investment income	-	3,239	3,239
Total revenues	-	105,009	105,009
Other financing source - transfer from General Fund	50,000	50,000	-
Total revenues and other financing source	\$ 50,000	155,009	105,009
Grants Fund			
Revenues			
Intergovernmental revenues:			
Commonwealth of Virginia	\$ 808,933	721,642	(87,291)
Federal government	4,663,881	4,378,554	(285,327)
Investment income	-	2,190	2,190
Total revenues	5,472,814	5,102,386	(370,428)
Other financing sources			
Transfer from the General Fund	207,571	203,731	(3,840)
Transfer from other funds	17,102	17,102	-
Total other financing sources	224,673	220,833	(3,840)
Total revenues and other financing sources	\$ 5,697,487	5,323,219	(374,268)
E-911 Operations Fund			
Revenues			
Consumer telephone tax E-911	\$ 3,535,100	3,161,354	(373,746)
Intergovernmental revenues from the Commonwealth of Virginia:			
Wireless E-911 service board	434,615	436,841	2,226
Investment income	-	449	449
Total revenues	3,969,715	3,598,644	(371,071)
Other financing source - transfer from the General Fund	1,271,361	1,287,739	16,378
Total revenues and other financing source	\$ 5,241,076	4,886,383	(354,693)
Juvenile Detention Home Fund			
Revenues			
Intergovernmental revenues:			
Commonwealth of Virginia	\$ 2,230,529	2,398,602	168,073
Federal government	-	12,409	12,409
Recovered costs	3,501,810	3,741,133	239,323
Total revenues	5,732,339	6,152,144	419,805
Other financing sources:			
Transfer from the General Fund	495,562	496,128	566
Transfer from other funds	125,455	125,455	-
Total other financing sources	621,017	621,583	566
Total revenues and other financing sources	\$ 6,353,356	6,773,727	420,371

CITY OF CHESAPEAKE, VIRGINIA

Community Development Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2004

Schedule P-10

	Appropriations	Expenditures - Public Welfare			Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year	Total			
HUD-Twenty-Two:							
Other project costs	\$ 40,000	-	-	-	40,000	-	40,000
Total HUD-Twenty-Two	40,000	-	-	-	40,000	-	40,000
HUD-Twenty-Three:							
Other project costs	35,569	34,999	-	34,999	570	-	570
HOME program grant	493,311	485,286	4,367	489,653	3,658	-	3,658
Finance grant	19,299	19,299	-	19,299	-	-	-
Section 108 debt service	153,445	153,445	-	153,445	-	-	-
Total HUD-Twenty-Three	701,624	693,029	4,367	697,396	4,228	-	4,228
HUD-Twenty-Four:							
Administrative project costs	88,670	88,474	-	88,474	196	-	196
Other project costs	152,253	121,758	20	121,778	30,475	-	30,475
HOME program grant	588,613	534,234	5,653	539,887	48,726	-	48,726
Fire Department grant	4,458	3,682	718	4,400	58	-	58
Environmental grants	94,400	93,049	-	93,049	1,351	-	1,351
Finance grant	30,102	20,278	-	20,278	9,824	-	9,824
Section 108 debt service	348,120	348,120	-	348,120	-	-	-
Pughsville sewer assistance	144,607	900	-	900	143,707	-	143,707
Total HUD-Twenty-Four	1,451,223	1,210,495	6,391	1,216,886	234,337	-	234,337
HUD-Twenty-Five:							
Administrative project costs	246,994	246,043	-	246,043	951	-	951
Other project costs	284,928	281,116	352	281,468	3,460	-	3,460
HOME program grant	1,424,912	1,229,312	59,429	1,288,741	136,171	-	136,171
Rehabilitation	274,949	192,453	38,535	230,988	43,961	-	43,961
Environmental grants	102,269	102,269	-	102,269	-	-	-
Finance grant	22,658	21,212	-	21,212	1,446	-	1,446
Section 108 debt service	348,010	348,010	-	348,010	-	-	-
Total HUD-Twenty-Five	2,704,720	2,420,415	98,316	2,518,731	185,989	-	185,989
HUD-Twenty-Six:							
Administrative project costs	244,630	237,517	4,995	242,512	2,118	-	2,118
Other project costs	202,505	198,046	707	198,753	3,752	-	3,752
HOME program grant	1,163,492	866,702	120,030	986,732	176,760	-	176,760
Rehabilitation	75,417	60,843	14,518	75,361	56	20,000	(19,944)
Environmental grants	100,529	91,328	-	91,328	9,201	3,400	5,801
Finance grant	22,818	15,312	-	15,312	7,506	-	7,506
Section 108 debt service	347,090	347,090	-	347,090	-	-	-
Total HUD-Twenty-Six	2,156,481	1,816,838	140,250	1,957,088	199,393	23,400	175,993

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Community Development Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2004

Schedule P-10, Continued

	Appropriations	Expenditures - Public Welfare			Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year					
HUD-Twenty-Seven:								
Administrative project costs	\$ 259,394	259,394	-	259,394	-	-	-	-
Other project costs	314,026	277,098	16,573	293,671	20,355	-	20,355	-
HOME program grant	1,283,183	428,256	310,101	738,357	544,826	-	544,826	-
Rehabilitation	93,461	47,931	15	47,946	45,515	-	38,944	-
Environmental grants	150,421	118,079	-	118,079	32,342	6,571	32,342	-
Finance grant	28,331	28,164	-	28,164	167	-	167	-
Section 108 debt service	350,229	350,229	-	350,229	-	-	-	-
Total HUD-Twenty-Seven	2,479,045	1,509,151	326,689	1,835,840	643,205	6,571	636,634	-
HUD-Twenty-Eight:								
Administrative project costs	268,357	264,959	3,398	268,357	-	-	-	-
Other project costs	264,857	187,715	14,258	201,973	62,884	-	62,884	-
HOME program grant	940,920	-	22,356	22,356	918,564	-	918,564	-
Rehabilitation	83,922	46,092	42	46,134	37,788	-	37,788	-
Environmental grants	145,117	135,973	-	135,973	9,144	-	9,144	-
Finance grant	31,708	21,910	318	22,228	9,480	-	9,480	-
Section 108 debt service	420,000	352,321	-	352,321	67,679	-	67,679	-
Total HUD-Twenty-Eight	2,154,881	1,008,970	40,372	1,049,342	1,105,539	-	1,105,539	-
HUD-Twenty-Nine:								
Administrative project costs	242,669	-	243,247	243,247	(578)	-	(578)	-
Other project costs	388,589	-	226,943	226,943	161,646	15,154	146,492	-
HOME program grant	697,329	-	127,951	127,951	569,378	-	569,378	-
Rehabilitation	101,429	-	45,575	45,575	55,854	-	55,854	-
Environmental grants	96,431	-	81,391	81,391	15,040	18,625	(3,585)	-
Finance grant	136,707	-	19,680	19,680	117,027	-	117,027	-
Fire grants	5,000	-	5,000	5,000	-	-	-	-
Section 108 loan program	720,000	-	508,133	508,133	211,867	-	211,867	-
Section 108 debt service	400,000	-	359,470	359,470	40,530	-	40,530	-
Total HUD-Twenty-Nine	2,788,154	-	1,617,390	1,617,390	1,170,764	33,779	1,136,985	-
Total expenditures and encumbrances	\$ 14,476,128	8,658,898	2,233,775	10,892,673	3,583,455	63,750	3,519,705	-

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-11

Interagency Consortium Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2004

	Revised Budget	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay				
EXPENDITURES							
Public welfare:							
Contract services	\$ 3,446,998	3,211,326	-	3,211,326	235,672	-	235,672
Administrative expenses	213,625	205,997	-	205,997	7,628	-	7,628
Total expenditures and encumbrances	\$ 3,660,623	3,417,323	-	3,417,323	243,300	-	243,300

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-12

Community Corrections Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2004

	Revised Budget	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay				
EXPENDITURES							
General government:							
Diversion services	\$ 226,339	225,138	-	225,138	1,201	3,000	(1,799)
Pre-trial services	242,670	229,167	-	229,167	13,503	5,412	8,091
Total expenditures and encumbrances	\$ 469,009	454,305	-	454,305	14,704	8,412	6,292

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-13

Fee Supported Activities Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2004

	Revised Budget	Expenditures		Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay			
EXPENDITURES - Public safety	\$ 56,360	35,979	-	20,381	12,400	7,981
Total expenditures and encumbrances	\$ 56,360	35,979	-	20,381	12,400	7,981

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-14

Grants Fund

Schedule of Expenditures and Encumbrances - Budget and Actual
Year Ended June 30, 2004

	Revised Budget	Expenditures			Total Expenditures	Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Year	Current Year					
EXPENDITURES								
General government	\$ 3,640,209	1,875,560	1,062,467	2,938,027	702,182	27,158	675,024	
Public safety	10,680,583	6,552,523	1,478,872	8,031,395	2,649,188	757,006	1,892,182	
Parks	918,307	286,482	282,734	569,216	349,091	111,923	237,168	
Public welfare	5,659,961	831,250	1,013,660	1,844,910	3,815,051	23,123	3,791,928	
Total expenditures and encumbrances	\$ 20,899,060	9,545,815	3,837,733	13,383,548	7,515,512	919,210	6,596,302	

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-15

E-911 Operations Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2004

	Revised Budget	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay				
EXPENDITURES - Public safety	\$ 3,757,300	3,172,326	38,295	3,210,621	546,679	1,732	544,947
Total expenditures and encumbrances	\$ 3,757,300	3,172,326	38,295	3,210,621	546,679	1,732	544,947

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-16

Juvenile Detention Home Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2004

	Revised Budget	Expenditures		Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay			
EXPENDITURES - General government	\$ 6,352,888	6,340,657	-	12,231	22,955	(10,724)
Total expenditures and encumbrances	\$ 6,352,888	6,340,657	-	12,231	22,955	(10,724)

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, 2004

	Northwest River Park	Jordan Bridge	Recreation	Total Nonmajor Enterprise Funds
ASSETS				
Current assets:				
Cash and temporary investments	\$ 333,356	300,542	676,420	1,310,318
Receivables:				
Accounts	627	8,838	9,460	18,925
Interest	-	349	-	349
Inventory of materials and supplies	2,215	-	8,560	10,775
Prepaid expenses	-	-	918	918
Total current assets	336,198	309,729	695,358	1,341,285
Noncurrent assets:				
Capital assets:				
Land	-	383,694	-	383,694
Buildings	-	19,624	10,822	30,446
Improvements other than buildings	73,793	-	-	73,793
Equipment and vehicles	48,543	132,687	387,447	568,677
Infrastructure	-	5,050,444	-	5,050,444
Less accumulated depreciation	(56,224)	(3,155,599)	(181,070)	(3,392,893)
Total capital assets, net of accumulated depreciation	66,112	2,430,850	217,199	2,714,161
Total noncurrent assets	66,112	2,430,850	217,199	2,714,161
Total assets	\$ 402,310	2,740,579	912,557	4,055,446
LIABILITIES AND NET ASSETS				
Liabilities				
Current liabilities:				
Accounts payable	2,485	22,986	32,885	58,356
Accrued expenses and other liabilities	377	11,994	825	13,196
Deferred revenues	10,463	-	37,446	47,909
Current portion of accrued vacation, sick pay, and overtime leave	1,248	18,216	2,342	21,806
Total current liabilities	14,573	53,196	73,498	141,267
Noncurrent liabilities:				
Accrued vacation, sick pay, and overtime leave	1,714	25,364	3,262	30,340
Total noncurrent liabilities	1,714	25,364	3,262	30,340
Total liabilities	16,287	78,560	76,760	171,607
Net Assets				
Invested in capital assets, net of related debt	66,112	2,430,850	217,199	2,714,161
Unrestricted	319,911	231,169	618,598	1,169,678
Total net assets	386,023	2,662,019	835,797	3,883,839
Total liabilities and net assets	\$ 402,310	2,740,579	912,557	4,055,446

CITY OF CHESAPEAKE, VIRGINIA

Schedule Q-2

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
 Nonmajor Enterprise Funds
 Year Ended June 30, 2004

	Northwest River Park	Jordan Bridge	Recreation	Total Nonmajor Enterprise Funds
OPERATING REVENUES				
Charges for services:				
Tolls and tickets	\$ -	1,087,960	-	1,087,960
Recreation fees	102,271	-	570,167	672,438
Other	-	1,290	2	1,292
Total operating revenues	102,271	1,089,250	570,169	1,761,690
OPERATING EXPENSES				
Purchases for resale	8,273	-	21,860	30,133
Other salaries and wages	36,640	473,584	87,434	597,658
Other fringe benefits	9,343	146,985	29,355	185,683
Other repairs and supplies	5,719	88,886	28,479	123,084
Other contractual services	-	-	276	276
Depreciation and amortization	3,690	138,756	63,989	206,435
Recreation	-	-	284,113	284,113
Other	19,341	412,184	21,500	453,025
Total operating expenses	83,006	1,260,395	537,006	1,880,407
Operating income (loss)	19,265	(171,145)	33,163	(118,717)
NONOPERATING REVENUE				
Investment income	3,336	4,458	6,769	14,563
Income (loss) before transfers	22,601	(166,687)	39,932	(104,154)
Transfers out	(3,336)	(3,003)	(21,769)	(28,108)
Increase (decrease) in net assets	19,265	(169,690)	18,163	(132,262)
Total net assets - beginning	366,758	2,831,709	817,634	4,016,101
Total net assets - ending	\$ 386,023	2,662,019	835,797	3,883,839

CITY OF CHESAPEAKE, VIRGINIA

Schedule Q-3

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

Year Ended June 30, 2004

	Northwest River Park	Jordan Bridge	Recreation	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 105,945	1,088,412	564,676	1,759,033
Payments to suppliers	(33,087)	(483,527)	(596,145)	(1,112,759)
Payments to employees	(44,806)	(624,750)	(115,818)	(785,374)
Net cash provided by (used in) operating activities	28,052	(19,865)	(147,287)	(139,100)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers out	-	-	(15,000)	(15,000)
Net cash used in noncapital financing activities	-	-	(15,000)	(15,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	-	(63,054)	(22,000)	(85,054)
Net cash used in capital and related financing activities	-	(63,054)	(22,000)	(85,054)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income	3,336	4,109	6,769	14,214
Transfers out	(3,336)	(3,003)	(6,769)	(13,108)
Net cash provided by investing activities	-	1,106	-	1,106
Net increase (decrease) in cash and temporary investments	28,052	(81,813)	(184,287)	(238,048)
Cash and temporary investments beginning of year	305,304	382,355	860,707	1,548,366
Cash and temporary investments end of year	\$ 333,356	300,542	676,420	1,310,318

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

Year Ended June 30, 2004

Schedule Q-3, Continued

	Northwest River Park	Jordan Bridge	Recreation	Total Nonmajor Enterprise Funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 19,265	(171,145)	33,163	(118,717)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	3,690	138,756	63,989	206,435
Change in assets and liabilities increasing (decreasing) cash and temporary investments:				
Receivables	491	(838)	(7,948)	(8,295)
Inventory of materials and supplies	8	-	(4,050)	(4,042)
Prepaid expenses and other assets	-	-	(918)	(918)
Accounts payable	238	17,543	(234,949)	(217,168)
Deferred revenues	3,183	-	2,455	5,638
Accrued expenses and other liabilities	(78)	4,430	780	5,132
Accrued vacation and sick pay	1,255	(8,611)	191	(7,165)
Total adjustments	8,787	151,280	(180,450)	(20,383)
Net cash provided by (used in) operating activities	\$ 28,052	(19,865)	(147,287)	(139,100)

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Internal Service Funds

Information Technology Fund – To account for the operation of the City’s central computer systems, 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.



Combining Statement of Net Assets
Internal Service Funds
June 30, 2004

	Information Technology	City Garage	Self- Insurance	Total
ASSETS				
Current assets:				
Cash and temporary investments	\$ 1,121,271	3,879,441	16,823,919	21,824,631
Receivables:				
Accounts	-	197,912	-	197,912
Interest	-	-	26,758	26,758
Inventory of materials and supplies	-	238,855	-	238,855
Prepaid expenses	-	-	727,864	727,864
Total current assets	1,121,271	4,316,208	17,578,541	23,016,020
Noncurrent assets:				
Capital assets:				
Buildings	-	117,649	20,930	138,579
Improvements other than buildings	228,124	177,814	-	405,938
Equipment and vehicles	3,685,727	54,135,020	56,136	57,876,883
Less accumulated depreciation	(2,365,428)	(33,963,677)	(64,696)	(36,393,801)
Total capital assets, net of accumulated depreciation	1,548,423	20,466,806	12,370	22,027,599
Total noncurrent assets	1,548,423	20,466,806	12,370	22,027,599
Total assets	\$ 2,669,694	24,783,014	17,590,911	45,043,619
LIABILITIES AND NET ASSETS				
Liabilities				
Current liabilities:				
Accounts payable	\$ 194,453	481,088	2,017	677,558
Current portion of obligations under capital leases	331,134	2,220,367	-	2,551,501
Current portion of notes payable	73,271	-	-	73,271
Current portion of accrued vacation, sick pay, and overtime leave	118,386	56,512	4,164	179,062
Current portion of liability for self-insurance losses	-	-	3,406,382	3,406,382
Total current liabilities	717,244	2,757,967	3,412,563	6,887,774
Noncurrent liabilities:				
Obligations under capital leases	1,224,288	4,121,907	-	5,346,195
Notes payable	48,578	-	-	48,578
Accrued vacation, sick pay, and overtime leave	164,835	78,685	5,800	249,320
Liability for self-insurance losses	-	-	15,940,619	15,940,619
Total noncurrent liabilities	1,437,701	4,200,592	15,946,419	21,584,712
Total liabilities	2,154,945	6,958,559	19,358,982	28,472,486
Net Assets				
Invested in capital assets, net of related debt	614,098	14,124,532	12,370	14,751,000
Unrestricted	(99,349)	3,699,923	(1,780,441)	1,820,133
Total net assets	514,749	17,824,455	(1,768,071)	16,571,133
Total liabilities and net assets	\$ 2,669,694	24,783,014	17,590,911	45,043,619

CITY OF CHESAPEAKE, VIRGINIA

Schedule R-2

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
Year Ended June 30, 2004

		Information Technology	City Garage	Self- Insurance	Total
OPERATING REVENUES					
Billings to departments	\$	5,972,451	11,548,350	4,196,689	21,717,490
Other		320	1,050	-	1,370
Total operating revenues		5,972,771	11,549,400	4,196,689	21,718,860
OPERATING EXPENSES					
Cost of materials billed		-	4,081,393	-	4,081,393
Other salaries and wages		2,677,003	1,454,185	124,572	4,255,760
Other fringe benefits		763,343	459,012	34,127	1,256,482
Self-insurance losses		-	-	4,536,068	4,536,068
Indemnity and medical claims		-	-	1,279,269	1,279,269
Other repairs and supplies		2,105,783	1,102,386	8,540	3,216,709
Equipment rental		276,326	7,197	1,799	285,322
Other contractual services		391,487	49,618	66,775	507,880
Depreciation and amortization		394,875	3,896,718	528	4,292,121
Insurance premiums		41,826	91,374	1,049,187	1,182,387
Other		384,663	458,752	42,891	886,306
Total operating expenses		7,035,306	11,600,635	7,143,756	25,779,697
Operating loss		(1,062,535)	(51,235)	(2,947,067)	(4,060,837)
NONOPERATING REVENUES (EXPENSES)					
Investment income		11,307	38,820	62,622	112,749
Interest expense		(34,098)	(238,486)	-	(272,584)
Loss on sale of equipment		(4,647)	(175,498)	-	(180,145)
Total nonoperating revenues (expenses)		(27,438)	(375,164)	62,622	(339,980)
Loss before transfers		(1,089,973)	(426,399)	(2,884,445)	(4,400,817)
Transfers in		48,595	1,460,937	-	1,509,532
Transfers out		(11,307)	(54,308)	(75)	(65,690)
Increase (decrease) in net assets		(1,052,685)	980,230	(2,884,520)	(2,956,975)
Total net assets - beginning		1,567,434	16,844,225	1,116,449	19,528,108
Total net assets - ending	\$	514,749	17,824,455	(1,768,071)	16,571,133

CITY OF CHESAPEAKE, VIRGINIA

Combining Statement of Cash Flows
 Internal Service Funds
 Year Ended June 30, 2004

Schedule R-3

	Information Technology	City Garage	Self- Insurance	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 5,972,771	11,434,510	4,196,689	21,603,970
Payments to suppliers	(2,371,038)	(5,920,091)	(4,253,560)	(12,544,689)
Payments to employees	(3,391,919)	(1,904,746)	(155,841)	(5,452,506)
Net cash provided by (used in) operating activities	209,814	3,609,673	(212,712)	3,606,775
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	48,595	-	-	48,595
Transfers out	-	(54,308)	(75)	(54,383)
Repayments of advances from the General Fund	-	(297,854)	-	(297,854)
Repayments of obligations under capital leases for equipment not capitalized	(141,755)	-	-	(141,755)
Net cash used in noncapital financing activities	(93,160)	(352,162)	(75)	(445,397)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Transfers in	-	1,460,937	-	1,460,937
Acquisition of capital assets	(73,827)	(3,479,890)	-	(3,553,717)
Interest paid	(34,098)	(238,486)	-	(272,584)
Repayments of obligations under capital leases	(19,209)	(1,784,752)	-	(1,803,961)
Repayments of notes payable	(71,216)	-	-	(71,216)
Net cash used in capital and related financing activities	(198,350)	(4,042,191)	-	(4,240,541)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income	11,307	38,820	48,533	98,660
Transfers out	(11,307)	-	-	(11,307)
Net cash provided by (used in) investing activities	-	38,820	48,533	87,353
Net decrease in cash and temporary investments	(81,696)	(745,860)	(164,254)	(991,810)
Cash and temporary investments beginning of year	1,202,967	4,625,301	16,988,173	22,816,441
Cash and temporary investments end of year	\$ 1,121,271	3,879,441	16,823,919	21,824,631

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule R-3, Continued

Combining Statement of Cash Flows

Internal Service Funds

Year Ended June 30, 2004

	Information Technology	City Garage	Self- Insurance	Total
Reconciliation of operating loss to net cash provided by (used in) operating activities:				
Operating loss	\$ (1,062,535)	(51,235)	(2,947,067)	(4,060,837)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation and amortization	394,875	3,896,718	528	4,292,121
Loss due to obsolescence	-	83,941	-	83,941
Change in assets and liabilities increasing (decreasing) cash and temporary investments:				
Receivables	-	(114,890)	-	(114,890)
Prepaid expenses	216	-	16,844	17,060
Inventory of materials and supplies	-	2,692	-	2,692
Accounts payable	(55,869)	(216,004)	(934)	(272,807)
Accrued expenses and other liabilities	5,514	-	2,715,059	2,720,573
Accrued vacation, sick pay, and overtime leave	42,913	8,451	2,858	54,222
Obligations under capital leases for equipment not capitalized	884,700	-	-	884,700
Total adjustments	1,272,349	3,660,908	2,734,355	7,667,612
Net cash provided by (used in) operating activities	\$ 209,814	3,609,673	(212,712)	3,606,775
Supplemental information on significant noncash transactions:				
City Garage Fund:				
Borrowing under capital lease	\$ 2,484,013			
Information Technology Fund:				
Borrowing under capital leases	\$ 1,716,386			

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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
Fiduciary Fund
Year Ended June 30, 2004

	Balances at July 1, 2003	Additions	Deductions	Balances at June 30, 2004
Assets				
Cash and temporary investments	\$ 29,784	120,918	138,388	12,314
Total assets	\$ 29,784	120,918	138,388	12,314
Liabilities				
Due to children under foster care	\$ 29,784	120,918	138,388	12,314
Total liabilities	\$ 29,784	120,918	138,388	12,314

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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, 2004

	Chesapeake Mosquito Control Commission	Chesapeake Port Authority
ASSETS		
Current assets:		
Cash and temporary investments	\$ 3,404,048	4,073
Inventory of materials and supplies	246,296	-
Prepaid expenses	5,000	-
Total current assets	3,655,344	4,073
Total assets	\$ 3,655,344	4,073
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities:		
Accounts payable	\$ 54,701	-
Total current liabilities	54,701	-
Noncurrent liabilities:		
Due to primary government	-	944,407
Total noncurrent liabilities	-	944,407
Total liabilities	54,701	944,407
Fund Balance		
Reserved:		
Encumbrances	1,353	-
Inventory	246,296	-
Unreserved	3,352,994	-
Net Assets		
Unrestricted	-	(940,334)
Total fund balance and net assets	3,600,643	(940,334)
Total liabilities, fund balance, and net assets	\$ 3,655,344	4,073
Reconciliation to Net Assets:		
Total fund balance	\$ 3,600,643	
Capital assets - net of depreciation	1,764,419	
Net Assets	\$ 5,365,062	

CITY OF CHESAPEAKE, VIRGINIA

Schedule T-2

Statement of Revenues, Expenditures, and Changes in Fund Balance
 Other Component Units
 Year Ended June 30, 2004

	Chesapeake Mosquito Control Commission
REVENUES	
Property taxes	\$ 3,782,771
Investment income	24,109
Other	7,964
Total revenues	3,814,844
EXPENDITURES	
Other salaries and wages	1,769,477
Other fringe benefits	597,092
Other repairs and supplies	609,749
Insurance premiums	244,344
Capital outlay	109,202
Other	247,852
Total expenditures	3,577,716
Excess of revenues over expenditures	237,128
Fund balance - beginning	3,344,262
Increase in fund balance reserved for inventory	19,253
Fund balance - ending	\$ 3,600,643

Reconciliation to Change in Net Assets:

Governmental funds report capital outlays 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	\$ 237,128
Increase in inventory	19,253
Depreciation expense	(144,336)
Capital outlay expenditures	109,202
Change in Net Assets	\$ 221,247

CITY OF CHESAPEAKE, VIRGINIA*Schedule T-3*

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Other Component Units

Year Ended June 30, 2004

	Chesapeake Port Authority
OPERATING EXPENSES	
General and administrative	\$ 400
Total operating expenses	400
Operating loss	(400)
NONOPERATING REVENUES	
Investment income	21
Total nonoperating revenues	21
Decrease in net assets	(379)
Net assets - beginning	(939,955)
Net assets - ending	\$ (940,334)

CITY OF CHESAPEAKE, VIRGINIA

Schedule T-4

Statement of Cash Flows
Other Component Units
Year Ended June 30, 2004

	Chesapeake Port Authority
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to suppliers	\$ (400)
Net cash used in operating activities	(400)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	21
Net cash provided by investing activities	21
Net decrease in cash and temporary investments	(379)
Cash and temporary investments beginning of year	4,452
Cash and temporary investments end of year	\$ 4,073
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (400)
Net cash used in operating activities	\$ (400)

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STATISTICAL SECTION



Table 1

CITY OF CHESAPEAKE, VIRGINIA

General Governmental Expenditures by Function (1), (2), (5)
Last Ten Fiscal Years - Unaudited

Fiscal Year	General Government (3)	Public Safety	Public Welfare	Education (4)	Public Works	Debt Service	Total Expenditures
1995 \$	50,801,735	40,773,104	22,318,049	179,201,339	28,806,835	22,463,097	344,364,159
1996	55,817,774	41,938,219	22,411,225	186,415,455	32,286,061	30,735,873	369,604,607
1997	62,979,549	43,015,921	22,891,119	205,902,731	32,229,556	33,336,595	400,355,471
1998	66,696,193	43,211,122	25,817,144	218,894,152	31,955,477	37,528,064	424,102,152
1999	84,878,479	45,866,887	27,815,709	232,498,090	33,233,637	38,361,952	462,654,754
2000	80,501,732	49,146,168	30,077,765	251,497,344	33,970,570	36,861,538	482,055,117
2001	85,418,849	52,721,899	31,156,049	266,104,342	35,047,846	45,315,195	515,764,180
2002	91,480,028	63,768,401	34,803,115	275,002,398	39,440,560	47,510,021	552,004,523
2003	91,041,930	65,087,140	33,008,012	300,443,272	38,551,088	45,366,637	573,498,079
2004	117,809,759	65,763,478	34,633,256	317,680,471	38,461,949	46,970,704	621,319,617

- (1) Includes the following funds: General, Special Revenue, Debt Service, Permanent, Chesapeake Mosquito Control Commission - component unit, and Chesapeake Public Schools - component unit. Excluded funds are: Capital Projects - primary government, and Chesapeake Public Schools Capital Projects - component unit.
- (2) Equipment acquired through capital leases is included in appropriate expenditure functions.
- (3) General Government includes Parks and Chesapeake Mosquito Control Commission - component unit.
- (4) Source for Education expenditures: Chesapeake Public Schools Comprehensive Annual Financial Report.
- (5) Transfer from City of Chesapeake to Chesapeake Public Schools is not included.

Table 2

CITY OF CHESAPEAKE, VIRGINIA

General Governmental Expenditures by Function
 Payroll, Capital Outlay, and Other Expenditures (1) (2) (5)
 Last Ten Fiscal Years - Unaudited

Fiscal Year	General Government (3)	Public Safety	Public Welfare	Education (4)	Public Works	Debt Service	Total Expenditures
1995:							
Payroll	\$ 22,590,309	23,609,324	9,138,919	113,802,962	10,161,727	-	179,303,241
Capital Outlay	2,925,477	2,963,677	-	7,759,553	2,207,109	-	15,855,816
Other Expenditures	25,285,949	14,200,103	13,179,130	57,638,824	16,437,999	22,463,097	149,205,102
Total	\$ 50,801,735	40,773,104	22,318,049	179,201,339	28,806,835	22,463,097	344,364,159
1996:							
Payroll	\$ 24,577,085	24,388,866	9,245,404	120,665,888	9,875,932	-	188,753,175
Capital Outlay	1,788,732	3,848,795	351,168	5,510,135	4,346,062	-	15,844,892
Other Expenditures	29,451,957	13,700,558	12,814,653	60,239,432	18,064,067	30,735,873	165,006,540
Total	\$ 55,817,774	41,938,219	22,411,225	186,415,455	32,286,061	30,735,873	369,604,607
1997:							
Payroll	\$ 27,039,926	25,816,882	9,637,294	129,908,435	9,786,889	-	202,189,426
Capital Outlay	3,355,217	1,179,900	292,028	5,384,160	273,486	-	10,484,791
Other Expenditures	32,584,406	16,019,139	12,961,797	70,610,136	22,169,181	33,336,595	187,681,254
Total	\$ 62,979,549	43,015,921	22,891,119	205,902,731	32,229,556	33,336,595	400,355,471
1998:							
Payroll	\$ 29,092,003	25,936,214	10,150,978	138,319,053	10,206,036	-	213,704,284
Capital Outlay	8,546,222	1,782,851	339,299	4,503,585	462,181	-	15,634,138
Other Expenditures	29,057,968	15,492,057	15,326,867	76,071,514	21,287,260	37,528,064	194,763,730
Total	\$ 66,696,193	43,211,122	25,817,144	218,894,152	31,955,477	37,528,064	424,102,152
1999:							
Payroll	\$ 33,074,728	27,934,332	10,972,892	146,420,730	10,528,926	-	228,931,608
Capital Outlay	9,693,290	591,094	511,798	4,751,889	397,623	-	15,945,694
Other Expenditures	42,110,461	17,341,461	16,331,019	81,325,471	22,307,088	38,361,952	217,777,452
Total	\$ 84,878,479	45,866,887	27,815,709	232,498,090	33,233,637	38,361,952	462,654,754

(Continued)

Table 2, Continued

CITY OF CHESAPEAKE, VIRGINIA

General Governmental Expenditures by Function

Payroll, Capital Outlay, and Other Expenditures (1) (2) (5)

Last Ten Fiscal Years - Unaudited

Fiscal Year	General Government (3)	Public Safety	Public Welfare	Education (4)	Public Works	Debt Service	Total Expenditures
2000:							
Payroll	\$ 34,569,569	29,179,394	11,078,618	157,851,704	10,895,155	-	243,574,440
Capital Outlay	7,801,068	632,011	193,843	5,368,859	292,045	-	14,287,826
Other Expenditures	38,131,095	19,334,763	18,805,304	88,276,781	22,783,370	36,861,538	224,192,851
Total	\$ 80,501,732	49,146,168	30,077,765	251,497,344	33,970,570	36,861,538	482,055,117
2001:							
Payroll	\$ 37,248,996	30,363,846	11,338,452	169,169,358	11,473,436	-	259,594,088
Capital Outlay	8,023,337	1,580,703	361,298	4,561,497	351,078	-	14,877,913
Other Expenditures	40,146,516	20,777,350	19,456,299	92,373,487	23,223,332	45,315,195	241,292,179
Total	\$ 85,418,849	52,721,899	31,156,049	266,104,342	35,047,846	45,315,195	515,764,180
2002:							
Payroll	\$ 43,987,806	40,978,277	13,455,052	178,232,151	12,301,223	-	288,954,509
Capital Outlay	998,396	194,891	62,350	4,813,751	2,926,440	-	8,995,828
Other Expenditures	46,493,826	22,595,233	21,285,713	91,956,496	24,212,897	47,510,021	254,054,186
Total	\$ 91,480,028	63,768,401	34,803,115	275,002,398	39,440,560	47,510,021	552,004,523
2003:							
Payroll	\$ 43,266,937	41,249,148	13,194,511	193,446,796	11,840,319	-	302,997,711
Capital Outlay	779,145	478,504	91,576	3,255,591	2,021,807	-	6,626,623
Other Expenditures	46,995,848	23,359,488	19,721,925	103,740,885	24,688,962	45,366,637	263,873,745
Total	\$ 91,041,930	65,087,140	33,008,012	300,443,272	38,551,088	45,366,637	573,498,079
2004:							
Payroll	\$ 46,556,568	42,487,839	13,343,773	204,829,108	12,425,549	-	319,642,837
Capital Outlay	379,047	341,658	645,257	5,143,973	1,887,052	-	8,396,987
Other Expenditures	70,874,144	22,933,981	20,644,226	107,707,390	24,149,348	46,970,704	293,279,793
Total	\$ 117,809,759	65,763,478	34,633,256	317,680,471	38,461,949	46,970,704	621,319,617

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

(2) Equipment acquired through capital leases is included in appropriate expenditure functions.

(3) General Government includes Parks and Chesapeake Mosquito Control Commission - component unit.

(4) Source for Education expenditures: Chesapeake Public Schools Comprehensive Annual Financial Report.

(5) Transfer from City of Chesapeake to Chesapeake Public Schools is not included.

Table 3

CITY OF CHESAPEAKE, VIRGINIA

General Governmental Revenues by Source (1) (3)
Last Ten Years - Unaudited

Fiscal Year	Licenses and Permits							Total
	Taxes	Permits	Inter-Governmental (2)	Charges for Services	Fines and Forfeitures	Interest	Miscellaneous	
1995	\$ 191,623,403	1,553,504	140,895,466	8,953,466	1,368,627	4,854,193	3,170,988	352,419,647
1996	202,092,989	1,716,988	149,183,991	9,407,664	1,448,143	5,245,696	2,694,454	371,789,925
1997	219,906,699	1,713,142	160,005,128	9,742,113	1,525,173	5,706,437	4,320,574	402,919,266
1998	230,844,988	2,170,486	167,794,866	10,044,035	1,667,778	5,492,134	4,958,759	422,973,046
1999	240,360,713	2,110,755	188,928,454	13,084,237	1,723,467	4,914,967	6,516,433	457,639,026
2000	247,939,405	1,976,338	220,254,142	14,128,466	1,901,936	5,536,617	7,458,113	499,195,017
2001	253,752,539	1,749,404	239,705,685	15,541,151	1,753,633	7,558,394	7,848,765	527,909,571
2002	262,934,779	1,897,261	252,935,046	16,078,179	2,154,515	3,390,268	7,288,858	546,678,906
2003	285,685,428	1,969,790	267,236,375	17,368,068	2,416,446	1,718,764	6,711,024	583,105,895
2004	310,177,105	2,495,770	298,119,003	18,242,300	2,440,972	580,622	6,575,483	638,631,255

(1) Includes the following funds: General, Debt Service, Special Revenue, Permanent, Chesapeake Mosquito Control Commission - component unit, and Chesapeake Public Schools - component unit. Excluded funds are: Capital Projects - primary government, and Chesapeake Public Schools, Capital Projects - component unit. Prior to 2002, Permanent Funds were also excluded.

(2) Transactions between Primary Government and Chesapeake Public Schools are not included.

(3) Source of Schools' revenues: Chesapeake Public Schools Comprehensive Annual Financial Report. Revenue reported is as follows:

Fiscal Year	Intergovernmental	Charges for Services	Interest	Misc.	Total
2004	\$ 182,061,253	6,215,940	12,800	1,371,845	189,661,838

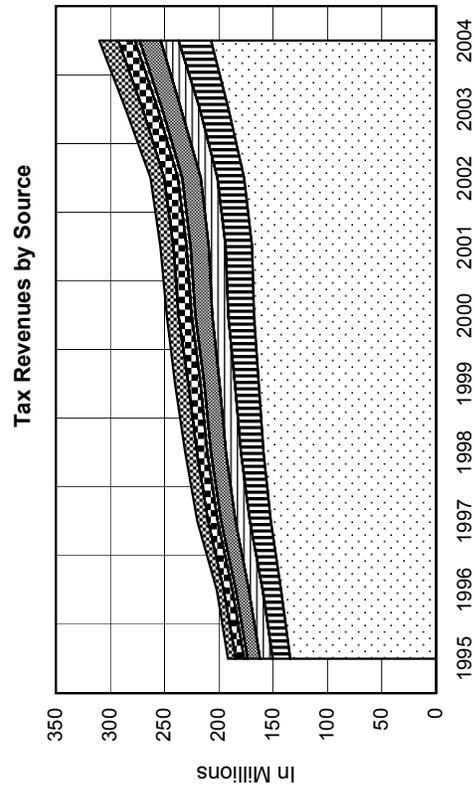
Table 4

CITY OF CHESAPEAKE, VIRGINIA

General Governmental Tax Revenues by Source (1)
Last Ten Fiscal Years - Unaudited

Fiscal Year	Property Tax	Sales Tax	Consumer Utility Tax	Business License Tax	Motor Vehicle License	Restaurant Food Tax	Other Taxes	Total
1995	\$ 134,115,947	16,161,263	11,928,700	11,395,459	3,156,196	7,509,844	7,355,994	191,623,403
1996	142,660,366	17,068,323	12,660,795	11,892,026	3,260,863	7,991,000	6,559,616	202,092,989
1997	152,086,160	19,532,738	13,194,202	12,974,654	3,367,030	8,782,387	9,969,528	219,906,699
1998	158,782,835	20,772,443	13,932,133	13,769,477	3,439,649	9,479,871	10,668,580	230,844,988
1999	163,239,851	22,112,454	14,053,894	13,944,564	3,581,464	11,157,160	12,271,326	240,360,713
2000	167,635,276	23,663,457	14,802,636	15,361,241	3,741,920	11,800,294	10,934,581	247,939,405
2001	169,507,053	24,331,536	15,318,488	16,752,599	3,881,289	12,052,924	11,908,650	253,752,539
2002	176,722,376	24,622,093	15,191,835	17,068,149	4,022,740	12,825,349	12,482,237	262,934,779
2003	191,031,223	26,452,698	17,200,898	17,532,069	4,094,224	13,721,782	15,652,534	285,685,428
2004	207,286,266	29,744,620	16,658,827	19,351,581	4,252,762	15,300,772	17,582,277	310,177,105

(1) Includes General Fund, Special Revenue Funds, and Chesapeake Mosquito Control Commission - component unit.



- Other Taxes
- Restaurant Food Tax
- Motor Vehicle License
- Business License Tax
- Consumer Utility Tax
- Sales Tax
- Property Tax

CITY OF CHESAPEAKE, VIRGINIA

Table 5

Analysis of School Operating Fund Revenues and Other Sources (1) (4)
Last Ten Fiscal Years - Unaudited

Fiscal Year	Federal (2)	% of Total	State	% of Total	Other	% of Total	Local (3)	% of Total	Total
1995	\$ 6,207,261	3.60%	\$ 88,579,455	51.42%	\$ 2,243,063	1.30%	\$ 75,234,233	41.38%	\$ 172,264,012
1996	6,431,399	3.54%	93,959,698	51.68%	1,254,887	0.69%	80,182,119	44.10%	181,828,103
1997	6,202,428	3.16%	100,984,971	51.43%	1,865,609	0.95%	87,282,119	44.46%	196,335,127
1998	7,411,383	3.55%	106,316,408	50.86%	1,881,496	0.90%	93,440,419	44.70%	209,049,706
1999	8,325,833	3.71%	114,554,124	51.08%	2,667,685	1.19%	98,729,248	44.02%	224,276,890
2000	10,162,509	4.18%	127,451,633	52.42%	2,625,985	1.08%	102,876,514	42.32%	243,116,641
2001	11,351,679	4.41%	137,054,476	53.22%	2,774,668	1.08%	106,326,514	41.29%	257,507,337
2002	13,439,878	5.01%	139,949,628	52.14%	1,814,806	0.67%	113,215,664	42.18%	268,419,976
2003	15,223,814	5.26%	151,511,874	52.33%	2,008,222	0.69%	120,793,637	41.72%	289,537,547
2004	18,053,722	5.90%	159,264,101	52.01%	2,025,109	0.66%	126,876,092	41.43%	306,219,024

(1) Does not include proceeds from capital lease for acquisition of equipment.

(2) Impact Funds (Public Law 874) for 1995 through 2004 are as follows:

1995	\$ 1,308,538	2000	\$ 1,495,156
1996	1,315,262	2001	2,623,561
1997	828,956	2002	2,867,188
1998	1,352,181	2003	3,085,121
1999	1,367,896	2004	3,353,094

(3) Transfers or intergovernmental revenue from City of Chesapeake, General Fund.

(4) Source: Chesapeake Public Schools Comprehensive Annual Financial Report.
This table includes the Chesapeake Public Schools Operating Fund. Excluded are Chesapeake Public Schools Food Service, Textbook, and Capital Projects Funds of the component unit.

Table 6

CITY OF CHESAPEAKE, VIRGINIA

Property Tax Levies and Collections
Last Ten Fiscal Years - Unaudited

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
1995	\$ 130,279,176	122,169,137	93.77%	\$ 10,093,243	132,262,380	101.52%	\$ 130,279,176	7.55%
1996	138,631,719	129,921,315	93.72%	10,836,002	140,757,317	101.53%	12,281,518	8.86%
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%

(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.

Yearly Tax Levies Compared With Current Year Collections

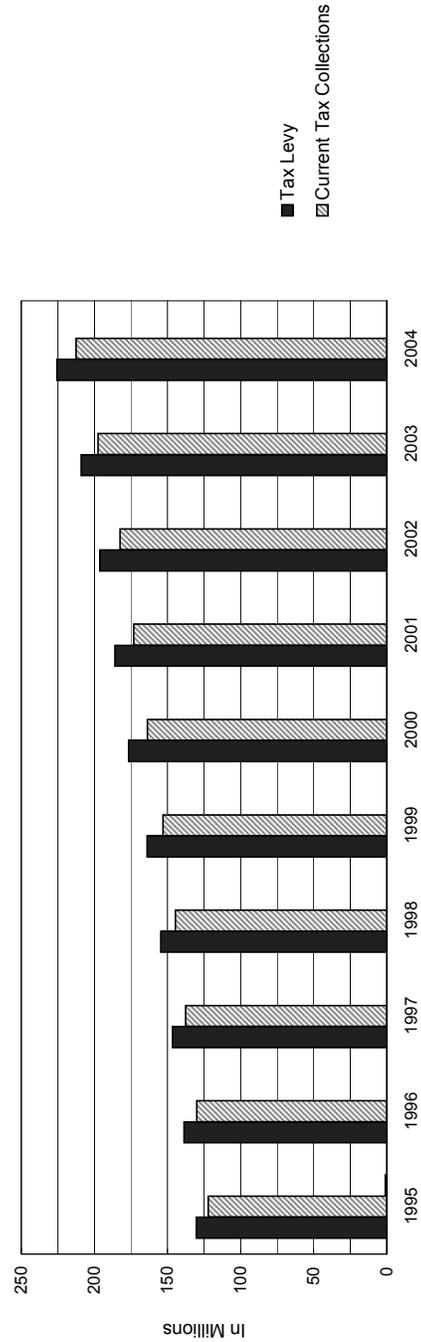


Table 7

CITY OF CHESAPEAKE, VIRGINIA

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	Assessed Value	Estimated Actual Value	
1995	\$ 7,623,228,788	7,623,228,788	804,926,616	804,926,616	8,428,155,404	8,428,155,404	100.00%
1996	8,127,898,685	8,127,898,685	884,203,228	884,203,228	9,012,101,913	9,012,101,913	100.00%
1997	8,563,808,409	8,563,808,409	943,699,805	943,699,805	9,507,508,214	9,507,508,214	100.00%
1998	9,040,735,075	9,040,735,075	993,216,197	993,216,197	10,033,951,272	10,033,951,272	100.00%
1999	9,457,465,403	9,457,465,403	1,102,588,406	1,102,588,406	10,560,053,809	10,560,053,809	100.00%
2000	10,013,133,847	10,013,133,847	1,238,515,865	1,238,515,865	11,251,649,712	11,251,649,712	100.00%
2001	10,544,713,562	10,544,713,562	1,301,853,895	1,301,853,895	11,846,567,457	11,846,567,457	100.00%
2002	11,262,033,169	11,262,033,169	1,327,827,157	1,327,827,157	12,589,860,326	12,589,860,326	100.00%
2003	12,119,195,740	12,119,195,740	1,374,652,783	1,374,652,783	13,493,848,523	13,493,848,523	100.00%
2004	13,248,747,216	13,248,747,216	1,426,488,475	1,426,488,475	14,675,235,691	14,675,235,691	100.00%

Table 8

CITY OF CHESAPEAKE, VIRGINIA

Property Tax Rates *
Last Ten Fiscal Years - Unaudited

Fiscal Year	REAL PROPERTY (1) (2)	PERSONAL PROPERTY (3) (4)													
		Motor Vehicles (5) (8)	Motor Carriers (6)	Recreation Vehicles (6)	Handicap Vehicle (7) (8)	Boats	Business	Mobile Homes (9)	Machinery & Tools	Farm	Airplanes				
1995	\$ 1.27	4.00								1.50	4.00	1.270	3.12	4.00	4.00
1996	1.26	4.00		1.50						1.50	4.00	1.260	3.12	4.00	4.00
1997	1.26	4.00	1.50	3.12	1.50					1.50	4.00	1.260	3.12	4.00	4.00
1998	1.26	4.00	1.50	3.12	1.50		1.50			1.50	4.00	1.260	3.12	4.00	0.50
1999	1.26	4.00	0.01	3.12	1.50		0.01			1.50	4.00	1.260	3.12	4.00	0.50
2000	1.26	4.00	0.01	3.12	1.50		0.01			1.50	4.00	1.260	3.12	4.00	0.50
2001	1.26	4.00	0.01	3.12	1.50		0.01			1.50	4.00	1.260	3.12	4.00	0.50
2002	1.26	4.00	0.01	3.12	1.50		0.01			1.50	4.00	1.260	3.12	4.00	0.50
2003	1.26	4.00	0.01	3.12	1.50		0.01			1.50	4.00	1.260	3.12	4.00	0.50
2004	1.26	4.00	0.01	3.12	1.50		0.01			1.50	4.00	1.260	3.12	4.00	0.50

* Rate per hundred

- (1) Assessment for real property is 100 percent of fair market value.
- (2) The general City real estate tax levy is \$1.26 per \$100 of assessed value. An additional \$.02 per \$100 of assessed value is imposed for mosquito control services. This additional rate was reduced from \$.025 per \$100 of assessed value beginning fiscal year 1996.
- (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 1997.
- (6) New category effective January 1996.
- (7) New category effective January 1998.
- (8) Tax rate on Disabled Veteran Motor Vehicle and Handicap Vehicle changed effective on January 1, 1999.
- (9) Mobile home assessments are based on per square foot values provided by a recognized pricing guide.

CITY OF CHESAPEAKE, VIRGINIA

Property Tax Levies
Last Ten Fiscal Years - Unaudited
Tax Levies

Table 9

Fiscal Year	REAL PROPERTY (1)	PERSONAL PROPERTY (1)										
		Motor Vehicles	Motor Carriers (2)	Recreation Vehicles (2)	Disabled Vets (3)	Handicap Vehicle (4)	Boats	Business	Mobile Homes	Machinery & Tools	Farm	Airplanes (5)
1995	\$ 90,213,353	24,484,701	-	-	-	-	216,103	4,329,429	155,823	2,270,601	75,249	26,028
1996	95,371,392	27,026,069	99,382	55,133	-	206,210	4,640,677	158,384	2,303,029	78,185	23,176	
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	

- (1) Public service corporation property is not included.
- (2) New category effective January 1, 1996.
- (3) New category effective January 1, 1997.
In January of 1999 the tax rate was reduced to \$0.01. The new tax rate essentially eliminated the tax.
- (4) New category effective January 1, 1998.
In January of 1999 the tax rate was reduced to \$0.01. The new tax rate essentially eliminated the tax.
- (5) Beginning January 1, 1998, tax rate was reduced from \$4.00 per hundred to \$0.50 per hundred.

CITY OF CHESAPEAKE, VIRGINIA

Table 10

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
1995	182,951	\$ 8,428,155,404	353,151,047	21,412,758	15,157,707	316,580,582	3.76%	\$ 1,730.41
1996	187,204	9,012,101,913	392,440,804	29,358,079	14,048,822	349,033,903	3.87%	1,864.46
1997	190,469	9,507,508,214	408,596,834	27,513,439	13,419,982	367,663,413	3.87%	1,930.31
1998	195,149	10,033,951,272	395,277,936	26,493,976	12,778,742	356,005,218	3.55%	1,824.27
1999	198,747	10,560,053,809	409,718,800	19,640,924	11,791,197	378,286,679	3.58%	1,903.36
2000	199,184	11,251,649,712	418,079,832	22,791,753	10,811,624	384,476,455	3.42%	1,930.26
2001	201,636	11,846,567,457	402,919,672	27,149,186	9,282,922	366,487,564	3.09%	1,817.57
2002	203,738	12,589,860,326	388,789,823	21,793,882	7,776,363	359,219,578	2.85%	1,763.14
2003	207,199	13,493,848,523	452,867,724	22,072,376	70,960,117	359,835,231	2.67%	1,736.66
2004	210,549	14,675,235,691	429,417,664	22,098,361	68,102,323	339,216,980	2.31%	1,611.11

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

(2) From Table 7.

(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.

CITY OF CHESAPEAKE, VIRGINIA

Table 11

Computation of Legal Debt Margin

June 30, 2004

Assessed valuation - real estate		\$	13,248,747,216 *
Legal debt limit:			
10% of assessed valuation		\$	1,324,874,722
Amount of debt applicable to legal debt limit:			
Total bonded debt	\$523,552,664		
Plus: Long-term payables	811,849		
Less: Self-supporting debt	(94,135,000)		
Amount available for repayment	(22,098,361)		408,131,152
Legal debt margin available		\$	916,743,570
Percent of:			
Legal debt margin outstanding	30.8%		
Legal debt margin available	69.2%		
	100.0%		
Summary of assessed valuation:			
Public service real estate		\$	836,319,821
Other real estate - City			12,412,427,395
		\$	13,248,747,216

*The General Assembly amended the Code of Virginia relating to real estate tax assessment, Section 58-760 states as follows: "All real estate, except such as is exempted by law. Beginning with assessments effective on January One, Nineteen Hundred Seventy-Seven, all general reassessments or annual assessments in those localities which have annual assessments of real estate, except that referred to in Section 58-512.1, shall be made at one hundred per centum fair market value and the State Corporation Commission shall certify public service corporation property to such county or city on the basis of the assessment ratio as most recently determined and published by the Department of Taxation."

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) (3)	Bonded Debt Expenditures (2)	Ratio of Debt Service to General Governmental Expenditures
1995	\$	344,364,159	22,463,097	6.52%
1996		369,604,607	30,735,873	8.32%
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%

(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.

(3) Table 1

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		
1995	\$ 25,649,447	15,575,169	10,074,278	1,795,765	2,013,950	3,809,715	2.64
1996	27,241,141	15,737,597	11,503,544	1,515,495	3,929,048	5,444,543	2.11
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

(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
1995	\$ 242,065,833	29,068,974	12.01%
1996	255,279,291	38,177,020	14.96%
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%

(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. (* included on Table 3)

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

Demographic Statistics
Last Ten Fiscal Years - Unaudited

Fiscal Year	Population (4)	Per Capita Income (1)	School Enrollment (2)	Virginia Unemployment Rate (3)
1995	182,951	\$ 20,425	33,600	4.0%
1996	187,204	21,585	34,468	3.9%
1997	190,469	22,505	35,070	3.9%
1998	195,149	23,458	35,877	2.7%
1999	198,747	24,849	36,242	2.6%
2000	199,184	26,389	36,920	2.2%
2001	201,636	27,807	37,264	2.9%
2002	203,738	29,810	37,878	3.3%
2003	207,199	n/a	38,788	3.4%
2004	210,549	n/a	39,204	3.8%

- (1) Planning Department (Hampton Roads Planning District Commission and Bureau of Economic Analysis). Information currently unavailable for 2003 and 2004.
- (2) Per Chesapeake Public Schools Administration.
- (3) Virginia Employment Commission (Reflects an average unemployment rate for the calendar year).
- (4) Chesapeake Planning Board estimate.

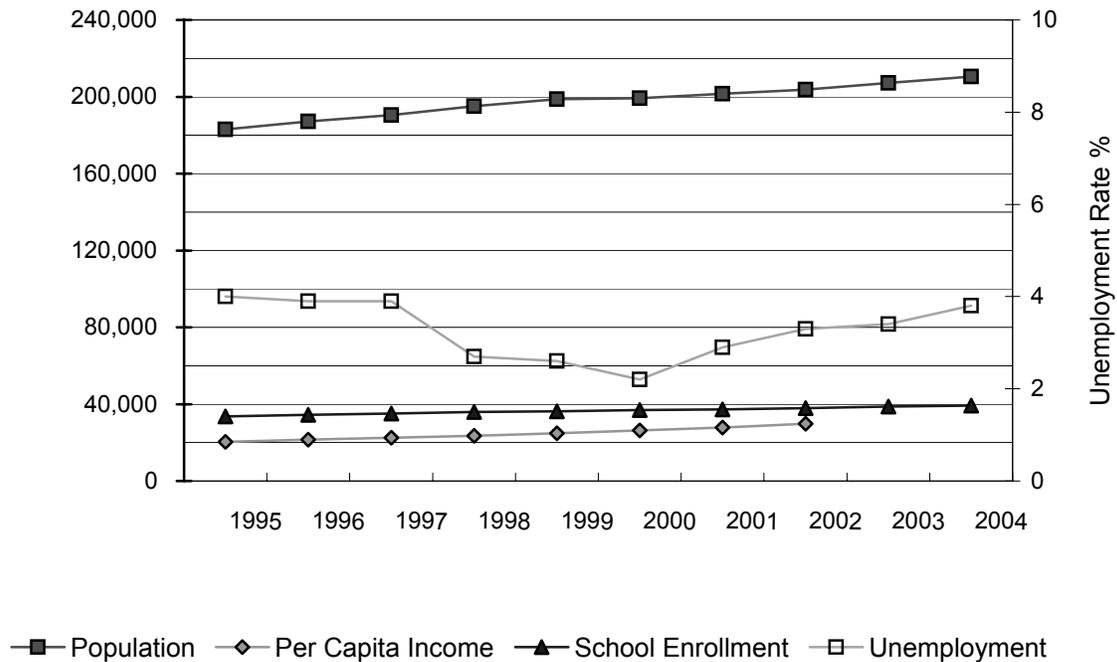


Table 16

CITY OF CHESAPEAKE, VIRGINIA

Property Value, Construction, and Bank Deposits
Last Ten Fiscal Years - Unaudited

Year	Commercial Construction (1)		Residential Construction (1)		Total Construction		Property Value * (1)		
	No. of Units	Value	No. of Units	Value	No. of Units	Value	Commercial	Residential	Non-Taxable
1995	124	\$ 42,896,200	3,510	\$ 199,236,200	3,634	\$ 242,132,400	1,898,680,614	5,071,203,186	820,871,500
1996	141	80,036,800	3,231	156,806,600	3,372	236,843,400	2,021,694,560	5,432,228,313	846,002,500
1997	160	73,594,900	3,502	187,780,600	3,662	261,375,500	2,094,270,702	5,795,294,578	877,499,100
1998	183	79,374,500	3,218	154,834,400	3,401	234,208,900	2,172,967,300	6,185,781,053	856,091,600
1999	144	103,907,500	3,359	192,079,100	3,503	295,986,600	2,341,175,149	6,415,262,026	1,042,747,000
2000	152	92,214,600	3,134	189,364,000	3,286	281,578,600	2,531,900,272	6,770,471,162	1,078,568,300
2001	129	88,141,800	2,864	163,181,700	2,993	251,323,500	2,661,931,401	7,158,197,517	1,117,784,200
2002	139	96,946,300	2,936	168,226,900	3,075	265,173,200	2,831,790,373	7,695,989,926	1,128,664,100
2003	131	53,473,000	2,973	219,333,300	3,104	272,806,300	2,980,057,518	8,361,444,700	1,219,596,700
2004	111	109,005,700	2,845	240,011,000	2,956	349,016,700	3,124,355,852	9,288,071,543	1,409,041,600

* Estimated Actual Value

(1) Source: Real Estate Assessor

(2) FDIC - Information available through June 30, 2003.

CITY OF CHESAPEAKE, VIRGINIA

Table 17

Principal Taxpayers
June 30, 2004 - Unaudited

Name of Business	Type of Business	Real Property Assessed Value	% of Total Assessed Value (1)
Dominion Virginia Power	Electric Utility	\$ 592,909,263	4.48%
Greenbrier Mall Partners LP	Shopping Mall & Vacant Land	79,498,400	0.60%
Chesapeake Mall LLC	Shopping Mall	79,296,100	0.60%
Crossways Associates LLC	Office Bldgs. & Shopping Center	48,426,200	0.37%
CP Venture Two LLC	Shopping Center	36,287,500	0.27%
Woodlake Co Limited Partnership	Apartment Complex	35,858,000	0.27%
JLP-Chesapeake LLC	Retail and Vacant Land	30,121,100	0.23%
Dollar Tree Distribution, Inc.	Distribution Center	26,131,000	0.20%
Chesapeake Center Associates	Shopping Center	25,711,400	0.19%
Mitsubishi Kasei America, Inc.	Manufacturing	25,653,000	0.19%
TOTAL		\$ 979,891,963	7.40%

(1) Total assessed valuation of real estate for FY 2004 was \$13,248,747,216 which includes Public Service Corporation property, as of June 30, 2004.

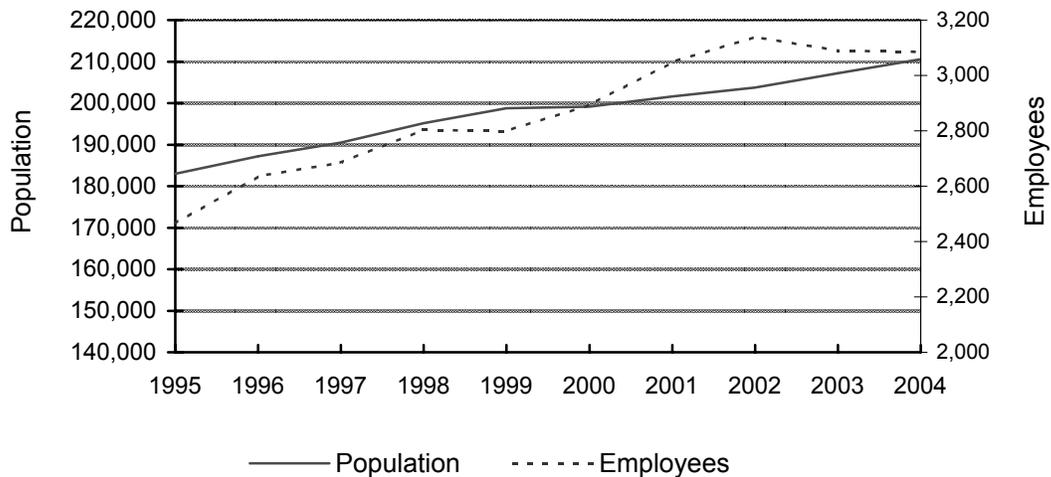
Source: Real Estate Assessor

Municipal Employment Statistics
Last Ten Fiscal Years - Unaudited

Fiscal Year	Population (1)	Total Employees	Employees Per 1,000 Population
1995	182,951	2,466	13.5
1996	187,204	2,636	14.1
1997	190,469	2,685	14.1
1998	195,149	2,803	14.4
1999	198,747	2,799	14.1
2000	199,184	2,893	14.5
2001	201,636	3,048	15.1
2002	203,738	3,139	15.4
2003	207,199	3,090	14.9
2004	210,549	3,085	14.7

Sources: (1) Planning Department (population figures as of January 1st)

Population and Employee Figures



CITY OF CHESAPEAKE, VIRGINIA

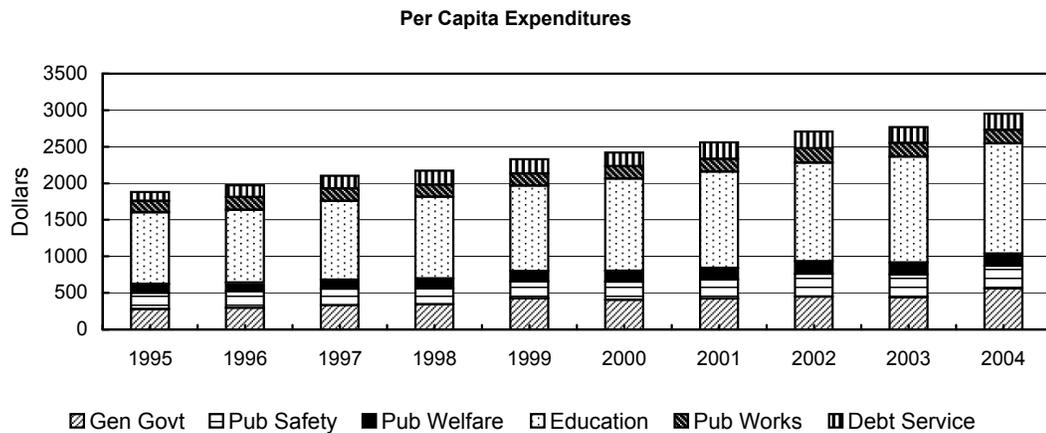
Table 19

Governmental Expenditures Per Capita (1), (2)
 Last Ten Fiscal Years - Unaudited

Fiscal Year	Population	General Gov't	Public Safety	Public Welfare	Education	Public Works	Debt Service	Total
1995	182,951	\$ 278	223	122	980	157	123	1,883
1996	187,204	298	224	120	996	172	164	1,974
1997	190,469	331	226	120	1,081	169	175	2,102
1998	195,149	342	221	132	1,122	164	192	2,173
1999	198,747	427	231	140	1,170	167	193	2,328
2000	199,184	404	247	151	1,263	170	185	2,420
2001	201,636	423	261	155	1,320	174	225	2,558
2002	203,738	449	313	171	1,350	193	233	2,709
2003	207,199	439	314	159	1,450	186	219	2,767
2004	210,549	560	312	164	1,509	183	223	2,951

(1) Includes the following funds: General, Special Revenue, Debt Service, Permanent, Chesapeake Mosquito Control Commission - component unit, and Chesapeake Public Schools - component unit. Excluded are Capital Projects - primary government, Chesapeake Public Schools Capital Projects - component unit, and expenditures/transfers between the City and Chesapeake Public Schools.

(2) Source - Table 1

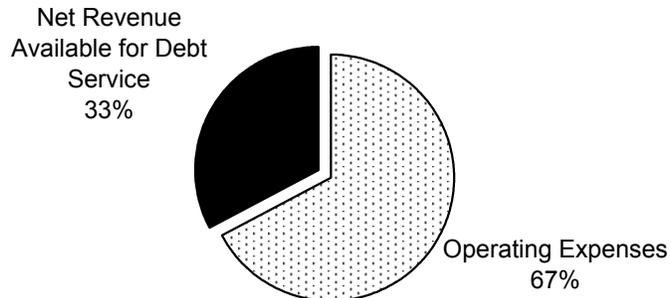


Revenue and Existing Double Barrel Parity Bond Coverage
 Water and Sewer Systems
 Last Ten Fiscal Years - Unaudited

Fiscal Year	Gross Revenue (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	DEBT SERVICE REQUIREMENTS (3)			Coverage
				Principal	Interest	Total (4)	
1995	\$ 23,987,445	15,575,169	8,412,276	1,350,000	1,386,162	2,736,162	3.07
1996	25,090,438	15,737,597	9,352,841	576,482	1,358,503	1,934,985	4.83
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	35,293,323	23,697,902	11,595,421	275,000	392,674	667,674	17.37

- (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.
- (4) In 1995 all double barrel parity bonds were fully redeemed.

For Year Ended June 30, 2004



CITY OF CHESAPEAKE, VIRGINIA

Table 21

Computation of Direct and Overlapping Bonded Debt
 General Obligation Bonds
 June 30, 2004 - Unaudited

Jurisdiction	Net General Obligation Bonded Debt Outstanding	Percentage Applicable To Government	Amount Applicable To Government
Direct:			
City of Chesapeake	\$ 361,315,341 (1)	100.00%	\$ 361,315,341
Overlapping:			
None	-		-
TOTAL	\$ 361,315,341		\$ 361,315,341

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

CITY OF CHESAPEAKE, VIRGINIA

Table 22

Miscellaneous Statistics
June 30, 2004 - Unaudited

Date of Incorporation	January 1963
Form of Government	Council-Manager
Number of registered voters	122,370
Number of Employees (Full Time)	3,085
Area in square miles	353
Miles of streets	2,222
Number of street lights	21,266
Culture and Recreation:	
Community centers	7
Specialized centers	4
Parks and play areas	65
Park acreage	2,042
Athletic fields and tennis courts	211
Public Safety:	
Number of Fire Stations	15
Number of Fire Personnel and Officers	407
Number of calls answered for Fire Protection Services	23,416
Number of Police Stations	5
Number of Police Personnel and Officers	500
Number of Patrol Units	231
Number of calls for Police Service	151,753
Part I Law Violations	8,432
Number of Adult Criminal Charges	14,829
Number of Physical & Traffic arrests	49,117
Number of DUI arrests	948
Water & Sewer:	
Miles of sanitary sewers	982
Sewage pumping stations	248
Number of service connections	56,340
Miles of water mains	772
Number of service connections	58,187
Number of fire hydrants	4,432
Daily average consumption in gallons (in mgd)	15
Daily average water provided by Chesapeake (in mgd)	9
Education:	
Number of elementary schools	28
Number of elementary school instructors	1,608
Number of secondary schools	16
Number of secondary school instructors	1,086
Number of educational centers	3

COMPLIANCE SECTION



CITY OF CHESAPEAKE, VIRGINIA

Schedule U-1

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalogue Number	Revenue/ Capital Contributions/ Loans	Expenditures
Department of Agriculture:			
Direct payments:			
Summer Food Service Program for Children	10.559	\$ 109,171	109,171
Pass-through payments:			
Department of Social Services:			
State Administrative Matching Grants for Food Stamp Program	10.561	1,232,960	1,232,960
Department of Education:			
School Breakfast Program	10.553	791,995	791,995
National School Lunch Program	10.555	3,155,404	3,155,404
Department of Agriculture and Consumer Services:			
Food Distribution - Commodities Value - Schools' Food Services	10.555	630,407	630,407
Food Distribution - Commodities Value - Detention Home	10.555	12,409	12,409
Department of Corrections:			
National School Breakfast and Lunch Programs	10.553	175,585	175,585
Department of Forestry:			
Cooperative Forestry Assistance	10.664	3,387	1,766
		6,111,318	6,109,697
Department of Housing and Urban Development:			
Direct payments:			
Community Development Block Grant Program:			
Program year 1998	14.218	-	738
Program year 1999	14.218	-	38,887
Program year 2000	14.218	12,141	20,220
Program year 2001	14.218	47,261	16,588
Program year 2002	14.218	1,521,174	18,016
Program year 2003	14.218	452,552	621,886
Section 108 Loan Program	14.248	720,000	508,083
Shelter Plus	14.238	21,255	21,387
HOME Investment Partnerships Program	14.239	278,210	748,530
		3,052,593	1,994,335
Department of Health and Human Services:			
Pass-through payments:			
Department of Mental Health, Mental Retardation and Substance Abuse:			
Block Grants for Community Mental Health Services	93.958	150,095	150,095
Block Grants for Prevention and Treatment of Substance Abuse	93.959	861,345	861,345
Department for the Aging:			
Special Programs for the Aging - Title III, Parts A and B - Grants for State and Community Programs on Aging	93.042	1,685	-
Department of Social Services:			
Promoting Safe and Stable Families	93.556	181,375	146,596
Temporary Assistance for Needy Families	93.558	1,345,233	1,345,233
Child Support Enforcement	93.563	-	8,382
Refugee and Entrant Assistance - State Administered Program	93.566	3,943	3,943
Low Income Home Energy Assistance	93.568	41,393	41,393
Payments to States for Child Care Assistance	93.575	1,278,073	1,287,676
Child Care and Development Fund	93.596	750,985	750,985
Foster Care-Title IV-E	93.658	2,479,713	1,804,335
Adoption Assistance	93.659	271,607	271,607
Social Services Block Grant	93.667	999,075	999,075
Independent Living	93.674	10,957	10,957
Medical Assistance Program (Medical: Title XIX)	93.778	671,208	671,208
Division of Child Support Enforcement:			
Child Support Dead File	93.564	177,317	148,122
		9,224,004	8,500,952

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule U-1, Continued

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalogue Number	Revenue/ Capital Contributions/ Loans	Expenditures
Department of the Interior:			
Direct payments:			
U.S. Fish and Wildlife Service - Refuge Revenue Sharing Act	15.XXX	\$ 58,017	58,017
U.S. Fish and Wildlife Service - Court Services Grant	15.614	19,703	19,600
		77,720	77,617
Department of Labor:			
Pass-through payments - Opportunity Incorporated of Hampton Roads -			
WIA Youth Activities	17.259	-	1,440
Welfare to Work	17.253	56,142	47,852
		56,142	49,292
Department of Justice:			
Direct payments:			
Bulletproof Vest Partnership Program	16.607	28,869	73,738
Drug Control and System Improvement - Forfeited Asset Sharing Program - Drug Enforcement	16.579	81,033	81,033
Local Law Enforcement Block Grant	16.592	175,174	7,377
Office of Community Oriented Policing Services - Public Safety - Partnership and Community Policing Grants	16.710	550,744	137,419
Pass-through payments:			
Virginia Department of Emergency Management: Equipment Grant Program	16.007	100,000	87,069
Bureau of Justice Assistance:			
Juvenile Accountability Incentive Block Grant	16.523	48,396	48,396
Victim Witness Assistance Grant Program	16.575	250,855	250,848
Drug Control and System Improvement	16.579	-	3,926
		1,235,071	689,806
U.S. Department of Transportation:			
Pass-through payments:			
Department of Motor Vehicles - Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.600	15,384	11,221
Virginia Department of Transportation:			
The Great Dismal Swamp Corridor Master Plan	20.205	-	46,672
Federal Highway Administration - Planning and Construction	20.205	101,289	101,289
Virginia Department of Emergency Management:			
Hazardous Materials Emergency Preparedness	20.703	8,000	4,291
		124,673	163,473
Department of Defense:			
Pass-through payments:			
Department of Education			
Payments to States in Lieu of Real Estate Taxes	12.112	13,400	13,400
		13,400	13,400
Department of Homeland Security:			
Pass-through payments:			
Virginia Department of Emergency Management:			
State Domestic Preparedness Equipment Program	97.004	727,399	236,463
Disaster Relief Public Assistance	97.036	13,143,277	13,143,277
State and Local All Hazards Emergency Operations Planning	97.051	96,072	20,946
Project Impact - Building Disaster Resistance Communities	97.XXX	97,798	56,984
Community Emergency Response Team	97.054	23,000	48,230
Assistance to Firefighters	97.044	-	93,111
Department of Mental Health, Mental Retardation and Substance Abuse Services:			
Crisis Counseling	97.032	243,912	222,009
		14,331,458	13,821,020

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule U-1, Continued

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalogue Number	Revenue/ Capital Contributions/ Loans	Expenditures
Department of Education:			
Direct payments:			
Impact Aid	84.041	\$ 3,353,096	3,353,096
Pass-through payments:			
Adult Education - State Grant Program	84.002	215,711	215,711
Education Consolidation and Improvement Act of 1981:			
Title I - Grants to Local Educational Agencies	84.010	4,763,844	4,763,844
ESEA Chapter II	84.298	351,388	347,241
Special Education - Grants to States	84.027	6,182,207	6,182,207
Special Education - Preschool Grants	84.173	188,653	188,653
Improving Teacher Quality	84.367	1,629,289	1,629,289
Department of Mental Health, Mental Retardation and Substance Abuse:			
Special Education - Grants for Infants and Families with Disabilities	84.181	209,044	215,293
Vocational Education:			
Basic Grants to States	84.048	576,416	576,416
Consumer and Homemaking	84.049	9,600	9,600
Special Projects:			
Safe and Drug-Free Schools	84.186	251,043	251,043
Comprehensive School Reform Demonstration	84.332	243,020	217,873
Limited English	84.365	24,074	24,074
Education Thru Technology	84.318	135,787	135,787
Tech Prep Education	84.243	5,300	5,300
		18,138,472	18,115,427
		\$ 52,364,851	49,535,019

See accompanying notes to schedule of expenditures of federal awards.

Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

(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, capital contributions, and loans are reported in the City's basic financial statements as follows:

Intergovernmental revenues and federal loan proceeds per the basic financial statements:

Primary government:	
General Fund	\$ 13,166,950
Capital Projects Fund	101,289
Special Revenue Funds:	
Virginia Public Assistance Fund	7,714,105
Community Services Fund	1,220,484
Community Development Fund	2,311,338
Community Development Fund - Section 108 loan proceeds	720,000
Interagency Consortium	108,194
Grants Fund	4,378,554
Juvenile Detention Home Fund	12,409
<u> Total primary government</u>	<u>29,733,323</u>
Component unit - Public Schools:	
School Operating Fund	18,053,722
School Food Services Fund	4,577,806
<u> Total component unit - Public Schools</u>	<u>22,631,528</u>
<u> Total federal expenditures from intergovernmental revenue</u>	<u>52,364,851</u>
Federal revenue reserved for encumbrances in fund balance	(4,264,887)
<u>Federal expenditures from fund balance</u>	<u>1,435,055</u>
<u> Total federal expenditures per the Schedule of</u>	
<u> Expenditures of Federal Awards</u>	<u>\$ 49,535,019</u>

(Continued)

Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

(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 \$750,985 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, 2004

(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**
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 10.553, 10.555 and 10.559
Impact Aid: CFDA 84.041
Public Assistance Grant: CFDA 97.036
- (h) Dollar threshold used to determine Type A programs: **\$1,486,051**
- (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.

(Continued)

CITY OF CHESAPEAKE

Schedule of Findings, Questioned Costs, and Management's Response
Year Ended June 30, 2004

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

United States Department of Agriculture

Child Nutrition Cluster; CFDA's 10.553, 10.555 and 10.559

Finding 04-1: Reportable Condition - Suspension and Debarment

In accordance with the A-102 Common Rule, non-federal entities are prohibited from contracting with parties that are suspended or debarred or whose principals are suspended or debarred for procurement transactions equal to or more than \$100,000. In two of five transactions tested, the suspension and debarment verification was not performed. We were able to determine that the two vendors were not suspended or debarred as of our fieldwork date, and as such, it is unlikely that there are any questioned costs associated with this finding; however, the known disbursements to these vendors totaled \$367,180. KPMG recommends that the Chesapeake Public Schools enhance their controls surrounding suspension and debarment certifications to ensure the certifications are obtained prior to entering into transactions with potential vendors and verified routinely throughout the contract period.

Response: While Chesapeake Public Schools has endeavored to obtain the required certification from vendors in the past, several steps have been taken to strengthen the process. A statement has been added to the signature page of all bids and Requests for Proposals requiring vendors to certify they are not under suspension or debarment and the required signature will be added to an internal checklist.

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

Virginia Department of Transportation

Urban Street Maintenance Program

State Finding 04-1: Reconciliation of U-3 Reports to the General Ledger

In accordance with the Auditor of Public Accounts *Audit Specifications for Counties, Cities and Towns*, Chapter 3, Section 15, local governments receiving street maintenance funds must submit an annual U-3 report to the Virginia Department of Transportation (VDOT) accounting for payments received and related expenditures. Payments and expenditures claimed on the annual report must reconcile to the local government's

CITY OF CHESAPEAKE

Schedule of Findings, Questioned Costs, and Management's Response
Year Ended June 30, 2004

accounting system and must be supported by detailed documentation. We noted that the reconciliation for the year ended June 30, 2004 indicated that expenditures in the general ledger were \$1,229,947 more than those reported on the annual U-3 report. The difference is attributable to differences in the bases upon which each report is prepared. Currently, the City reconciles the total reported U-3 expenditures to that reported on the general ledger on a quarterly basis. The City is aware of these differences and feels that further analysis would not prove to be cost beneficial. As the general ledger expenditure amount exceeds the total amount of street payments received from VDOT for the year, there are no questioned costs. We recommend that the City develop procedures to reconcile the expenditures appearing on the general ledger and the U-3 report and the City should also ensure that any differences between the general ledger and the U-3 report are resolved in a timely manner.

Virginia Department of Transportation

Urban Street Maintenance Program

State Finding 04-2: Eligible Streets

In accordance with the Auditor of Public Accounts *Audit Specifications for Counties, Cities and Towns*, Chapter 3, Section 15, all streets listed on the annual U-3 report sent to the Virginia Department of Transportation (VDOT) must be included on VDOT's annual listing of eligible streets. During our testwork, we noted that two streets, in which maintenance was performed and the resulting expenses were submitted to VDOT, were not listed as an eligible street. The City has submitted the street to VDOT and is awaiting a decision. We recommend that the City ensure that all streets submitted to VDOT as a result of maintenance and resurfacing have been properly approved by VDOT and are included in the eligible street listing.

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

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters

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, 2004, and have issued our report thereon dated October 22, 2004. 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. We did not audit the financial statements of the City of Chesapeake Industrial Development Authority or the Chesapeake Airport Authority, which represent 31% and 1%, 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 Industrial Development Authority or the Chesapeake Airport Authority is based on the reports of the other 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.

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

October 22, 2004



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

**Independent Auditors' Report on Compliance
with Requirements Applicable to Each Major Program
and on Internal Control over Compliance**

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, 2004. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance 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.

As described in item 04-1 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding suspension and debarment that are applicable to its Child Nutrition Cluster program. Compliance with this requirement is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2004.

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 internal control over compliance in accordance with OMB Circular A-133.

We noted one matter involving the internal control over compliance and its operation that we consider to be a reportable condition. 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. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 04-1.

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 do not believe that the reportable condition 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

October 22, 2004



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

Independent Auditors' 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, 2004, and have issued our report thereon dated October 22, 2004.

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 Industrial Development Authority or the Chesapeake Airport Authority, which represent 31% and 1%, 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 Industrial 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 04-1 and 04-2.

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

October 22, 2004