

Comprehensive Annual
Financial Report
of the
City of Chesapeake, Virginia
for Fiscal Year Ended
June 30, 2005

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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November 4, 2005

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, 2005, 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, 2004.
- 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, Economic Development Authority of the City of Chesapeake (the EDA), formerly known as the Industrial Development Authority, Chesapeake Port Authority, and Chesapeake Airport Authority. The activities of one component unit, CSB of Chesapeake, Inc. (CSBC, Inc.), is considered to be so intertwined with the City's activities that they are in substance part of the City's operations. Therefore, CSBC, Inc. is blended with the City's governmental activities.

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

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

Economic Condition and Outlook

Chesapeake's economy has remained relatively strong compared to other areas in the country, primarily because its diversity shields it from dramatic shifts caused by changes in the national or global economies. Retail growth continues to be a strong economic indicator for the City. Retail sales reached a record high of nearly \$3.2 billion during FY 05, an increase of 1,000 percent since 1981. In past years, the City's retail sector expanded in relation to significant residential growth. Recently, as the rate of residential expansion has become more controlled, retail growth has continued because of the City's attractive demographics, strong business base, and a proactive marketing approach targeting unique national and local retailers.

Local unemployment for the City and State remains below the national rate. For the fiscal year ended June 30, 2005, the average unemployment rate was 3.6% in Chesapeake and 3.5% in Virginia, compared to 5.3% in the U.S. For seven of the eight quarters in calendar years 2003 and 2004, the U.S. Bureau of Labor Statistics ranked Chesapeake among the Top 25 cities nationally for percentage job growth. Chesapeake was the only Virginia locality to be included in this listing.

Economic activity, which had slowed somewhat during 2003-2004, showed signs of growth during the 2004-2005 year. Corporate expansion and relocation inquiries from out of the area (and globally) increased significantly, as did speculative development of both industrial and office buildings. The construction of over 800,000 square feet of industrial space was announced, or commenced, in Summer 2004. Construction on an additional 800 new hotel rooms was recently completed, and approximately 1.7 million square feet of new retail space is under construction in three new "power center" developments.

During calendar year 2004, nearly 1,900 new jobs were created in Chesapeake and over \$108 million of new capital investment was recorded. New job creation exceeded 1,400 new jobs for seven of the past nine years while new capital investment exceeded \$70 million for eight of the past nine years.

The 2004-2005 fiscal year includes the following economic development highlights:

- € In March 2005, City Council adopted an ordinance establishing a Tax Increment Financing District (TIF) in the South Norfolk section of the City. Establishment of a TIF District will be instrumental to the revitalization efforts in the South Norfolk section of the City. The program is intended to improve public infrastructure, such as roads, schools, libraries, and utilities; improve the overall character of the District with streetscapes, pedestrian walkways, attractive gateways, uniform signage, and landscaping; improve public transit access including Hampton Roads Transit bus and ferry facility; and provide improvements to public areas such as parks, open areas, and the Elizabeth River waterfront. These projects, in turn, will stimulate private sector investments and encourage commercial developments in the District which are needed to implement the redevelopment goals

and priorities for the South Norfolk section of the City. The costs of the public purpose improvements in the South Norfolk TIF District will be funded by the incremental taxes collected from improvements to these properties made after January 1, 2006;

- € In September 2004, Republic Development Company broke ground on their fourth medical office building in Chesapeake. The 32,500 square foot facility will be located adjacent to Chesapeake General Hospital and represents a \$4.5 million capital investment;
- € In June 2005, land from Phase One of the City's newest business park, Oakbrooke Business & Technology Center, was made available for sale; and
- € Off-site infrastructure work began on Dominion Commerce Park, a 250-acre light industrial park in the Dominion Boulevard corridor of the City. This business park is anticipated to open Spring 2006.

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

Major Initiatives

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

During fiscal year 2005 the City achieved the following accomplishments:

- € Completed the implementation of a fully integrated, web-based accounting and financial reporting system that went live on July 1, 2005. Benefits to be realized include increased budgetary controls, powerful reporting and analysis tools, moving the City and Schools to a global financial system, greater departmental purchasing authority to promote City-wide efficiency, and a new and improved chart of accounts.
- € In June 2005, construction began on a new high school to serve the southern Chesapeake (Grassfield) area of the City. The school is scheduled to open in the Fall of 2007 and will have a capacity of approximately 2,400 students.
- € Began operation of a Smart Traffic Center which includes a central computer system to control traffic signals, as well as a video room with live video feeds from strategic, high volume locations. Historical traffic data is collected and provides a more effective means of creating up-to-date traffic signal and systems timings. This is a federally funded Congestion Management Air Quality (CMAQ) project.

- € In June 2005, the City made significant strides in the area of e-government and overall customer service by implementing a citywide database application within the Customer Contact Center Division of Neighborhood Services. Citizens can contact the Center by dialing one phone number or use an on-line system to request city information, services, and updates.
- € Placed into service a web-based application and employment tracking system (CLICK) for general employment, public safety, internships, and volunteer positions. Benefits to the City include a virtual approval process for job requisitions, the opportunity to post positions as they become vacant, an over 100% increase in applications received, and the ability to review applications from any computer that has an internet connection

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 109,923 in June 2005 per the Virginia Employment Commission, an increase of 14.2%.

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 completed 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 are a component of the Plan, such as the coordination of capital improvements and other resources to achieve the Plan's goals. The Plan was adopted by Chesapeake City Council on March 9, 2005. Major themes contained in the Plan's policies are growth management, community revitalization, and the maintenance of a high standard for community facilities and services.

Council's responsiveness to development demands, as well as its commitment to orderly growth, has enhanced those quality of life values that 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.

The City Council continues to uphold its dedication to "The City That Cares" philosophy by reducing the property tax rate for homeowners. In May 2005, City Council voted to reduce the tax rate by \$.05 per \$100 value bringing the rate down to \$1.21 per \$100 value effective July 2005. This will provide a balance between the taxpayers' burden and the City's resources requirements.

Financial Information

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

Single Audit. As a recipient of federal and state financial assistance, the City is also responsible for establishing and maintaining an adequate internal control structure to ensure and document compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management and the audit services staff of the City. As part of the City's Single Audit, tests were made to determine the adequacy of internal controls and of its compliance with applicable laws and regulations, including that portion related to federal awards. Although this testing is not sufficient to support an opinion on the City's internal control system or its compliance with laws, regulations, contracts, and grant agreements, the audit for the fiscal year ended June 30, 2005 disclosed no internal control material weaknesses or material violations of applicable laws and regulations.

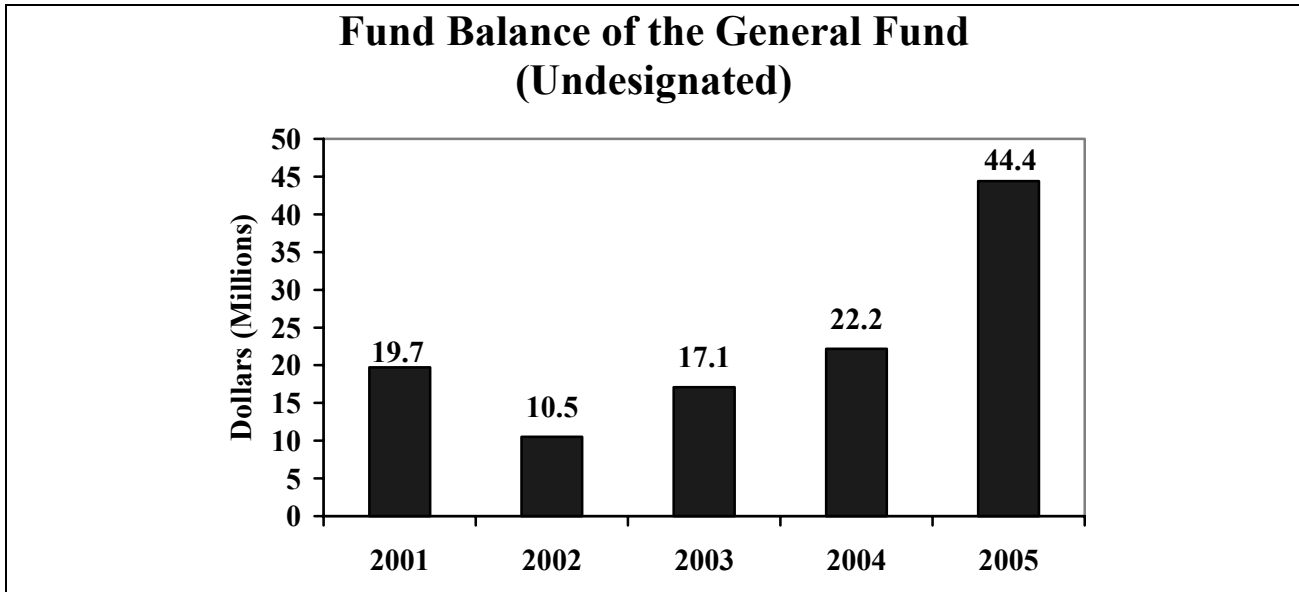
Budgetary Controls. Budgetary controls are maintained to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Activities of the General Fund, certain Special Revenue Funds, Debt Service Fund, Enterprise Funds, Chesapeake Mosquito Control Commission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

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

- € Governmental Funds - The City's governmental funds include the General Fund, the Debt Service Fund, the Capital Projects Fund, the Special Revenue Funds, and the Permanent Funds. The General Fund is the main operating fund of the City, and is used to account for all financial resources except those required to be accounted for in another fund. The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. The Capital Projects Fund is used to account for proceeds from public improvement bond issues, local funding sources, and construction grants and expenditures relating to capital projects. When capital projects are completed, the costs of the improvements are transferred from construction in progress to the appropriate fixed asset category. Special revenue funds have been established for programs that the City needs to track separately. There are eleven special revenue funds for specific purposes, such as the Grants Fund, Virginia Public Assistance Fund, and Interagency Consortium Fund. In addition, CSBC, Inc., a blended component unit, is reported as a special revenue fund of the City. Permanent funds report resources that are legally restricted to the extent that only earnings, and not principal, may be used for specific purposes.
- € Proprietary Funds - Proprietary funds are classified as enterprise funds or internal service funds. An enterprise fund is used to report an activity for which fees are charged to external users for goods or services. An internal service fund is used to centralize certain services and then allocate the cost of these services within the government. The City maintains separate enterprise funds for six distinct activities: Public Utilities, Chesapeake Expressway, Stormwater Management, Northwest River Park, Jordan Bridge, and Recreation. The City uses three internal service funds: Information Technology, City Garage, and Self-Insurance.
- € Fiduciary Fund - The fiduciary fund is used to account for assets held by the City as trustee, as a custodian, or in a fiduciary capacity.

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

Fund Balance of General Fund. The General Fund fund balance is an important element in the financial position of the City. The fund balance is divided into reserved and unreserved portions, and the unreserved fund balance is subdivided into designated and undesignated portions. Reserved fund balance is used to reserve assets that are not available for current spending, and designated fund balance represents planned uses of current resources. Fund balance not only provides a reserve for emergencies, but it is a positive factor when the rating agencies consider bond ratings for the City. The City Charter requires that a minimum of six percent of total General Fund revenues must be set aside in the annual operating budget for emergency use and cash flow needs throughout the fiscal year. The June 30, 2005 designation for cash flow emergencies totaled \$25,590,428. 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 2004 budget to provide a June 30, 2004 balance of \$16,785,980. City Council also approved an additional increase of \$569,581 with the adoption of the fiscal year 2005 budget to bring the June 30, 2005 balance up to \$17,355,561. In addition to the designation for cash flow emergencies and designation for operating emergencies, \$13,458,130 has been set aside in various reserves and other designations.



The undesignated General Fund fund balance, which represents available current financial resources, totaled \$44,393,697 at June 30, 2005, an increase of \$22,175,664 from the prior year. The change is primarily due to the 11% increase of current tax revenues on real property resulting from larger assessments. Also contributing to this positive change in fund balance was the ongoing monitoring of expenditures by departments resulting in approximately \$4.6 million budgetary savings. 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, 2004			\$ 22.2
Revenues		\$ 427.3	
Expenditures:			
Current	\$ 335.4		
Other financing uses, net	<u>62.6</u>	(398.0)	
Increase in reserves and designations		<u>(7.1)</u>	
Increase in undesignated fund balance			<u>22.2</u>
Undesignated fund balance at June 30, 2005			<u>\$ 44.4</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, 2005, cash temporarily idle during the year was invested in demand deposits (3.39%), repurchase agreements ranging from one to five days (0.63%), and in the following instruments with an average maturity of 167 days: Virginia banks' certificates of deposit covered by federal depository insurance or collateralized under the Virginia Security for Public Deposits Act (18.92%), bankers' acceptances (.60%), U. S. Government and Agencies (25.58%), commercial paper which has obtained ratings no lower than A-1 by Standard & Poor's and no lower than P-1 by Moody's (20.14%), short-term corporate notes of domestic corporations with a rating no lower than Aa by Moody's and AA by Standard & Poor's (2.64%), full flex repurchase agreements (.13%), the Local Government Investment Pool "LGIP" (8.9%), Evergreen U.S. Treasury Money Market (0.35%), the Virginia State Non-Arbitrage Program "SNAP" (18.57%), and U.S. Treasury Securities (0.15%). Investments are held to maturity under usual circumstances.

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

The average earnings yield on the investments for the year was 2.40%, which compares favorably with the average earnings yield of 2.27% for the U.S. Treasury three-month bill. The City of Chesapeake primary government earned revenues of \$5,183,322 on investments for the year ended June 30, 2005.

The breakdown of the interest earnings is as follows:

Interest on Invested Funds	
Fund Type	Interest Earned
General Fund	\$ 1,574,787
Debt Service Fund	613,276
Capital Projects Fund	1,022,597
Special Revenue and Permanent Funds	150,982
Enterprise Funds	1,434,118
Internal Service Funds	387,562
Total Interest Earned	\$ 5,183,322

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

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

Other Information

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

Awards. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. This was the 23rd 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,

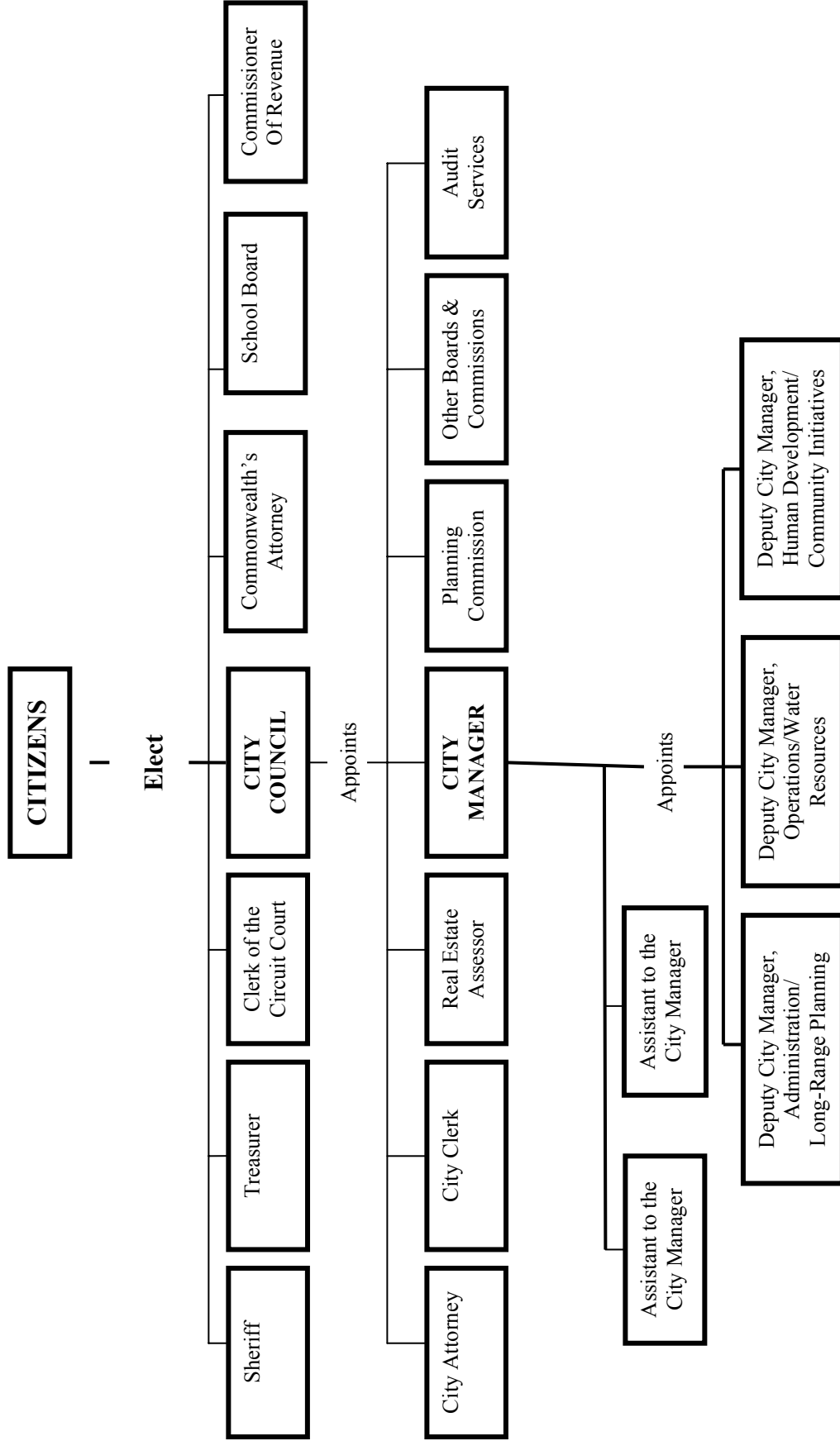
/S/

Dr. Clarence V. Cuffee
City Manager

/S/

Nancy C. Tracy
Director of Finance

Organization Chart



CITY OF CHESAPEAKE, VIRGINIA

City Officials
June 30, 2005

City Council

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

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

Other Officials

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
Bruce Kushner and Randall D. Smith..... Judges, Circuit Court
Faye Mitchell Clerk of the Circuit Court
Colon H. Whitehurst..... Chief Judge, General District Court
Robert R. Carter, David L. Williams and
Timothy S. Wright Judges, General District Court
Phyllis Hamric Clerk of the General District Court
Rufus A. Banks Chief Judge, Juvenile and Domestic Relations Court
Larry D. Willis, Eileen A. Olds Judges, Juvenile and Domestic Relations Court
Lorraine Throckmorton..... Clerk of the Juvenile and Domestic Relations Court
Nancy G. Parr..... Commonwealth's Attorney
Nancy C. Tracy Director of Finance
Dr. Betty Jean 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, 2005

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

School Board

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

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

CITY OF CHESAPEAKE, VIRGINIA

City Officials, Continued
June 30, 2005

Other School Board Officials

Dr. W. Randolph Nichols..... Superintendent
Dr. William E. Russell..... Deputy Superintendent
Dr. Patricia PowersAssistant Superintendent - Curriculum and Instruction
Fred Cabler Assistant Superintendent - Budget and Finance
Dr. Jim Roberts Assistant Superintendent - Personnel and Support Services
Steve GilbertAssistant Superintendent - Operations
Edward L. HughesAdministrative Assistant to Superintendent and Clerk of the Board

Supplemental Listing

Burke Craver..... Secretary/Treasurer, Chesapeake Airport Authority
Warren D. Harris..... Executive Director, Chesapeake Port Authority
Warren D. Harris..... Executive Secretary, Economic Development Authority
Brenda WillisExecutive 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, 2004

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.



Nancy L. Zielle

President

Jeffrey R. Emer

Executive Director

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, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City of Chesapeake Economic Development Authority or the Chesapeake Airport Authority, which together represent 29% 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 Economic Development Authority or the Chesapeake Airport Authority, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns*, (specifications) issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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, 2005, and the respective changes in financial position and, where applicable, cash flows 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 November 4, 2005 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 114 through 117 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

November 4, 2005

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



CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis
Year ended June 30, 2005

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, 2005. 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 2005

- € The assets of the City of Chesapeake, on a government-wide basis excluding component units, exceeded its liabilities at the close of fiscal year 2005 by \$1.067 billion (net assets). Of this amount, \$160.4 million is unrestricted.
- € The City's total net assets increased by \$76.1 million from the prior year. The governmental net assets increased \$67.9 million and business-type net assets increased by \$8.2 million. A significant portion of this increase (\$42.6 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 \$206.2 million, an increase of \$41.4 million from the prior year. Approximately 56% or \$114.7 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 \$29.3 million, primarily due to higher than expected tax 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 \$44.4 million, or 13% of total General Fund expenditures (including payments to Chesapeake Public Schools).
- € The City's total bonded debt increased by \$3.1 million (.5%) during the current fiscal year. The scheduled repayment of principal of \$29.4 million largely offset the \$33.1 million in new debt issued during fiscal year 2005.
- € The City issued \$6.9 million of general obligation water and sewer refunding bonds during the year in order to refund \$7.5 million of water and sewer revenue refunding bonds. The refunding resulted in a net savings of over \$500,000 in future debt service payments.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2005

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*.

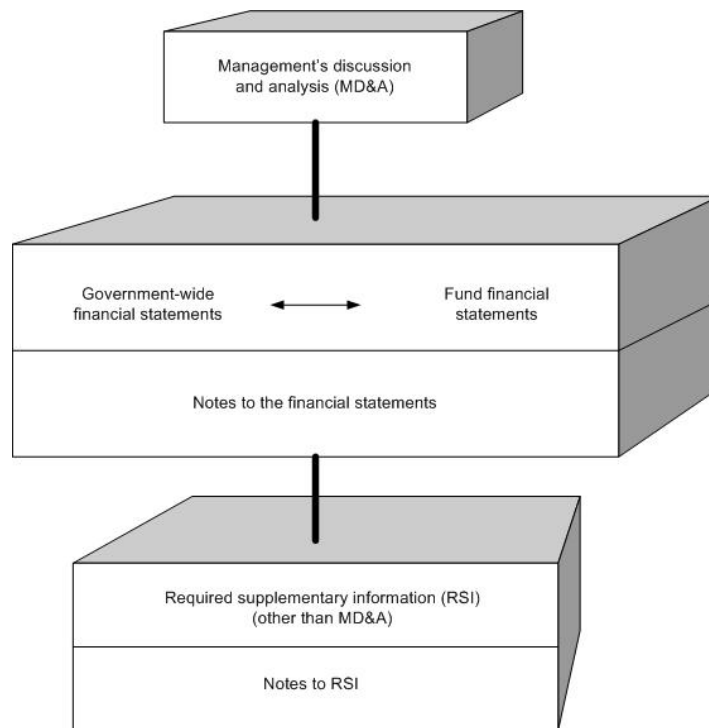
The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2005

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, 2005

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

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting mechanisms that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and by bond covenants; City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2005

The City has three kinds of funds:

- € *Governmental funds* – Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances remaining at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund statements. The City includes in its governmental fund statements a blended component unit, CSB of Chesapeake, Inc. because it provides services entirely for the benefit of the City.

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

- € *Fiduciary fund* – The City is the trustee, or fiduciary, for certain donated funds. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in this fund are used for their intended purpose. These activities are reported in a separate Statement of Fiduciary Net Assets. The City excludes this activity from its government-wide financial statements because the City cannot use these assets to finance its operations.

The Total Governmental Funds column requires a reconciliation because of the different measurement focus from the government-wide statements (current financial resources versus total economic resources) which is reflected on the page following each statement. The flow of current financial resources will reflect bond proceeds and interfund transfers as other financing sources as well as capital expenditures and bond principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligations (bonds and others) into the Governmental Activities column (in the government-wide statements).

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2005

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 \$1.067 billion at the close of fiscal year 2005. By far the largest portion of the City's net assets (79%) reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure), less accumulated depreciation and less any related outstanding debt used to acquire those assets. The City uses these assets to provide services to its citizens and consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources.

Statement of Net Assets

The following table reflects the condensed Net Assets:

Table 1
Summary of Net Assets
June 30, 2005 and 2004
(in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Assets						
Current and other assets	\$ 260.3	218.1	72.0	105.1	332.3	323.2
Capital assets	1,019.9	989.4	466.8	428.6	1,486.7	1,418.0
Total assets	\$ 1,280.2	1,207.5	538.8	533.7	1,819.0	1,741.2
Liabilities						
Current and other liabilities	\$ 23.0	21.6	8.1	7.4	31.1	29.0
Long-term liabilities	488.2	484.8	232.8	236.6	721.0	721.4
Total liabilities	511.2	506.4	240.9	244.0	752.1	750.4
Net assets						
Invested in capital assets, net of related debt	588.7	563.3	249.6	228.1	838.3	791.4
Restricted net assets	21.9	33.4	46.3	60.4	68.2	93.8
Unrestricted net assets	158.4	104.4	2.0	1.2	160.4	105.6
Total net assets	769.0	701.1	297.9	289.7	1,066.9	990.8
Total liabilities and net assets	\$ 1,280.2	1,207.5	538.8	533.7	1,819.0	1,741.2

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2005

Approximately 6% of the City's net assets are subject to external restrictions. The remaining balance of *unrestricted net assets* (\$160.4 million or 15%) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the primary government as a whole as well as for its separate governmental and business-type activities. The same was true for fiscal year 2004.

There was an increase of \$8.2 million in total net assets in the business-type activities, largely as a result of donated infrastructure assets.

The City's total net assets increased by \$76.1 million during the fiscal year. The increase in revenues (8%) exceeded the increase in expenses (1%) for this period.

Governmental Activities

Net assets of the City's governmental activities increased by \$67.9 million, as shown on the Statement of Activities, accounting for 89% of the total growth in net assets of the City. This increase was largely due to capital grants and contributions supporting the Public Works function, which includes roads. Included in this category is the Atlantic Intercoastal Waterway Bridge, which was capitalized for \$28.5 million, with \$20.5 million of this cost being donated by the federal government. Total donated infrastructure assets were \$29.8 million up from \$14.5 million in the prior year. Expenses increased by 1%, including increases in certain functional areas, primarily education expenses, that were largely offset by a reduction in interest on long-term debt and a reduction of other functional areas such as general government, parks, and public safety. Revenues for governmental activities increased 9% over the prior year.

Business-type Activities

The net assets of the City's business-type activities increased from \$289.7 million to \$297.9 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 \$8.1 million. Current and other assets decreased by approximately \$33.1 million due primarily to the spending of restricted cash from bond proceeds for capital construction for the Lake Gaston water treatment project. There were no major fee increases for the period; however, expenses increased approximately 3%, due to the higher cost and increased amount of water purchased for resale to utility customers.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2005

Statement of Activities

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

Table 2
Changes in Net Assets
Years Ended June 30, 2005 and 2004
(in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues:						
Charges for services	\$ 21.5	20.7	53.7	52.9	75.2	73.6
Operating grants and contributions	77.7	88.5	1.2	1.0	78.9	89.5
Capital grants and contributions	35.6	18.5	8.1	5.9	43.7	24.4
General revenues:						
Property taxes	224.8	205.2	-	-	224.8	205.2
Other taxes	111.6	102.9	-	-	111.6	102.9
Unrestricted investment earnings	3.1	1.3	0.2	-	3.3	1.3
Other	1.0	0.3	-	-	1.0	0.3
Capital grants and contributions not restricted to specific programs	31.8	29.4	-	-	31.8	29.4
Total revenues	507.1	466.8	63.2	59.8	570.3	526.6
Expenses						
General government	102.2	107.6	-	-	102.2	107.6
Public safety	71.9	73.5	-	-	71.9	73.5
Public works	40.2	36.7	-	-	40.2	36.7
Parks	4.0	8.9	-	-	4.0	8.9
Public welfare	37.6	34.0	-	-	37.6	34.0
Education	143.9	134.5	-	-	143.9	134.5
Public Utilities	-	-	40.0	38.6	40.0	38.6
Chesapeake Expressway	-	-	8.8	8.7	8.8	8.7
Stormwater Management	-	-	3.6	3.4	3.6	3.4
Depreciation - unallocated	21.0	20.6	-	-	21.0	20.6
Other	-	-	1.8	1.9	1.8	1.9
Interest on long-term debt	19.2	21.4	-	-	19.2	21.4
Total expenses	440.0	437.2	54.2	52.6	494.2	489.8
Excess before transfers	67.1	29.6	9.0	7.2	76.1	36.8
Transfers	0.8	0.4	(0.8)	(0.4)	-	-
Increase in net assets	67.9	30.0	8.2	6.8	76.1	36.8
Net assets - beginning	701.1	671.1	289.7	282.9	990.8	954.0
Net assets - ending	\$ 769.0	701.1	297.9	289.7	1,066.9	990.8

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2005

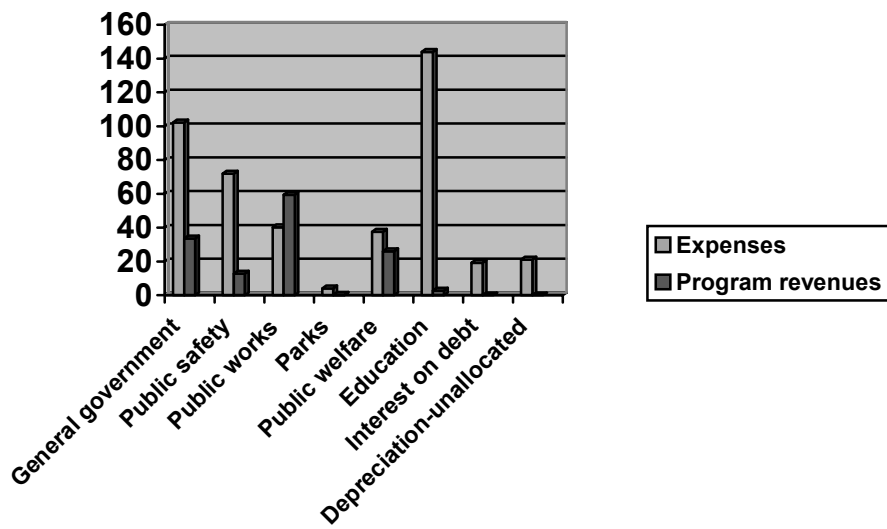
Governmental Activities

The City's total revenues from governmental activities were \$507.1 million for the fiscal year ended June 30, 2005. The largest source of revenue (\$225 million for fiscal year 2005) 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 11% 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 ten years. The City Council voted to reduce the tax rate by \$.05 effective July 1, 2005.

Revenues from other taxes increased 8% over the prior fiscal year, fueled in part by continued strong consumer activity and activity in the real estate market. Approximately 59% of the City's revenue from governmental and business-type activities comes from some type of tax, and 13% comes from fees charged for services.

The City's expenses for governmental activities cover a wide range of services, with 16% or \$71.9 million for fiscal year 2005 related to public safety and 33% or \$143.9 million for fiscal year 2005 for education (including payments to the Public Schools, a component unit). Overall, expenses for governmental activities increased by 1% which can be largely attributed to the combined effect of decreased expenses related to the recovery efforts associated with Hurricane Isabel in 2004 and increased expenses resulting from the cost of the City's employee retirement plan under the Virginia Retirement System.

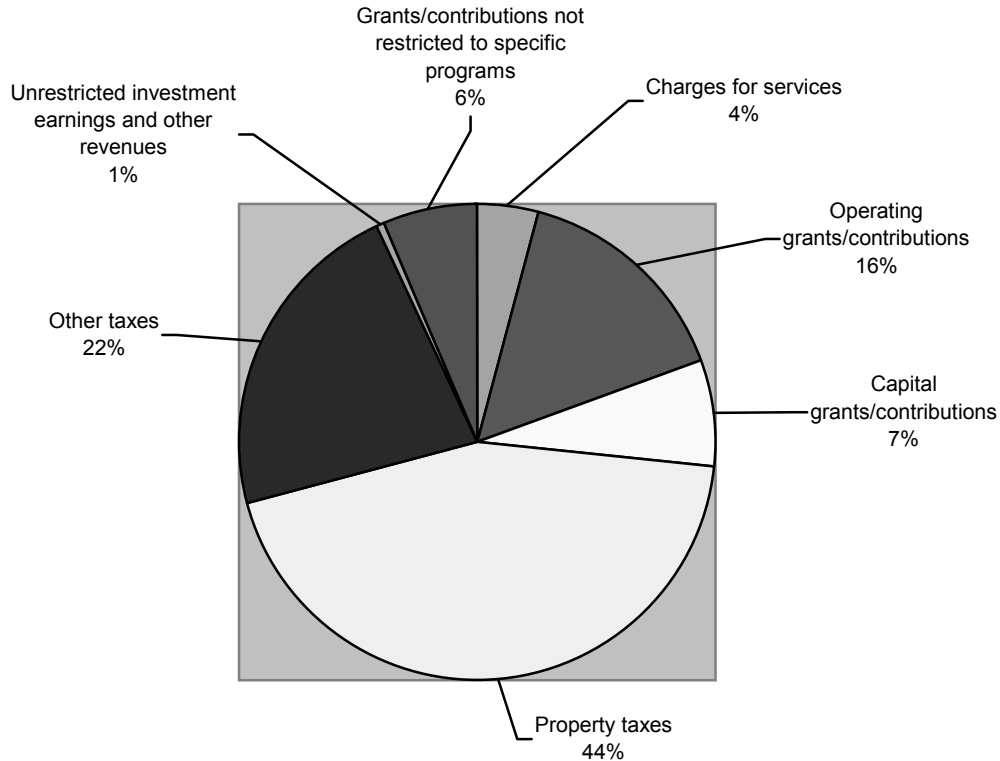
Expenses and Program Revenues – Governmental Activities (in millions) Year Ended June 30, 2005



CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2005

Revenues by Source – Governmental Activities – Year Ended June 30, 2005



Business-Type Activities

Net assets for the City's business-type activities increased by \$8.2 million largely as a result of assets deeded over by developers. This increase accounted for 11% of the total growth in the City's net assets. Charges for services including water and sewer utility fees, stormwater fees, and toll revenues made up 85% of total revenues for business-type activities. There was not a significant increase in expenses for most of the City's business-type activities. The overall net increase in expenses for all business-type activities was 3% which resulted from the higher costs of the employee retirement plan under the Virginia Retirement System.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2005

Governmental Funds

The focus of Chesapeake's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. In particular, unreserved fund balance may serve as a useful measure of net resources available at the end of a fiscal year. For the fiscal year ended June 30, 2005, the governmental funds reported combined ending fund balances of \$206.2 million, an increase of \$41.4 million over the prior year. Included in this are the following major transactions in governmental funds for the year ended June 30, 2005:

- € \$28.1 million spent in the Capital Projects Fund to fund infrastructure, a new community center, a new high school, and other community facilities throughout the City.
- € \$137.2 million contributed by the City's General Fund in operating and capital funds to finance the Public Schools' operations and capital construction. Additionally, the City paid \$25 million in debt service for the Public Schools.
- € \$24.7 million principal debt retired.

Approximately \$114.7 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, 2005 in the following amounts and for the following purposes:

- € \$25.6 million for cash flow emergencies
- € \$17.4 million for operating emergencies
- € \$22.9 million for debt service
- € \$1.8 million for various other purposes

The remainder of the unreserved fund balance at June 30, 2005, not designated for a specific purpose, includes \$44.4 million in the General Fund, the City's chief operating fund. This amount represents 13% of total General Fund expenditures, as a measure of the General Fund's liquidity. Total fund balance of the General Fund increased by \$29.3 million for fiscal year 2005. 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 \$22.2 million. This increase represents an excess of revenues over expenditures of \$91.9 million, other financing sources (uses) net, of (\$62.6) million, and a net increase in reserves and designations of \$7.1 million.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2005

The General Fund experienced an overall 6% growth in revenue. Investment income was up over 450% due to an increase in interest rates nationwide as well as higher cash balances available for investment. General property taxes accounted for \$21 million in increased tax revenue for the City, with a 10% increase over 2004. An 11% growth in real estate assessments helped generate this increased tax revenue. Total revenues from local sources grew by \$33.3 million or 10%. Expenditures increased overall 1% from the fiscal year 2004 level. The general government category decreased 10%, mainly due to the reduction of \$21 million in Hurricane Isabel expenditures that were reported in 2004. After removing the effect of these emergency expenditures, total General Fund expenditures for 2005 increased by 7% or \$24.1 million over 2004. Contributing to this increase were a 7.5% increase in the general government category and an 8% increase in the public safety category. This is largely attributed to the Virginia Retirement System increasing the City's contribution rate from 10% in 2004 to 15.25% of covered payroll for 2005. A 7% increase occurred in the education category for payments to Chesapeake Public Schools.

The Debt Service Fund ended the year with \$25.8 million in total fund balance, an increase of \$859,000 over 2004. The unreserved fund balance is \$22.9 million, which has been designated by City Council for the payment of debt service. This increase in fund balance included the following major transactions:

- € a planned use of fund balance of \$105,065 for capital projects;
- € a transfer of \$782,000 from lottery proceeds received by the Schools, to fund debt service on 2002 school bonds issued for Grassfield High School; and
- € issuance of \$13.8 million general obligation public improvement bonds, with a total premium received of \$395,000, of which \$135,000 of the premium was recorded in the Debt Service Fund.

The City spent \$28.1 million in the Capital Projects Fund to fund major capital projects, including Cedar Road improvements, the Great Bridge (AIW) Bridge, Tidewater Community College off-site improvements, Campostella Community Center, Brentwood Fire Station #9 in Camelot, the integrated financial management system, traffic signal system upgrade, improvements in Campostella Square, and Grassfield High School. Undesignated fund balance in the Capital Projects Fund was (\$10.4) million at June 30, 2005, due to outstanding encumbrances for Grassfield High School that will be funded by future debt issuances.

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.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2005

Restricted net assets of the Public Utilities Enterprise Fund at the end of the year amounted to \$35.4 million. Growth in net assets was \$8.8 million, resulting mainly from the booking of deeded and donated assets from developers in the amount of \$8.1 million. The increase in net assets prior to the impact of this transaction was \$705,000. Approximately \$36.4 million was spent on major water and sewer capital projects.

The Chesapeake Expressway toll road reported operating revenues for fiscal year 2005 totaling \$6.9 million versus \$6.7 million for 2004. Operating expenses for the year amounted to \$6.6 million, with \$4.4 million from depreciation expense. Net assets decreased by \$2.2 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 Toll Facility Revolving funds that helped fund the initial construction of the toll road.

The Stormwater Management Fund, an enterprise fund, had \$19.2 million in total net assets at June 30, 2005, up from \$18 million in 2004. Income from operations was \$1.1 million. Any fees collected in excess of current operating needs are restricted for use on future stormwater projects around the City. Approximately \$1.4 million was spent on various stormwater, dredging, and drainage improvement projects during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund

Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual
Revenues:			
Taxes	\$ 317,842,500	317,595,320	331,057,479
Intergovernmental	70,679,981	72,737,062	78,179,865
Other	14,581,531	14,786,265	16,897,182
Total	403,104,012	405,118,647	426,134,526
Expenditures and transfers:			
Expenditures *	204,208,399	202,615,037	198,161,142
Transfers (net)	192,177,227	200,059,833	198,665,882
Total	396,385,626	402,674,870	396,827,024
Change in fund balance	\$ 6,718,386	2,443,777	29,307,502

*The City's budget ordinance includes, as part of the original budget for expenditures, the amount of \$2.9 million for encumbrances reappropriated from June 30, 2004.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2005

Differences between the original budget and the final amended budget for the City's General Fund amounted to \$6.3 million (net increase in appropriations and transfers) and include the following major changes:

- € \$1.8 million appropriation increase for street maintenance funded by State highway maintenance funds;
- € Over \$1 million appropriations transferred to the Central Fleet Internal Service Fund for purchase of fleet vehicles for user departments;
- € Transfer of \$1.1 million appropriations to the Grants Fund for multi-year grant programs;
- € \$419,000 appropriation for Fair Labor Standards Act overtime compliance for the Fire Department, funded by increased recordation taxes;
- € Appropriation of \$225,000 state drug funds from the undesignated fund balance;
- € \$3.3 million appropriated from existing reserves and undesignated fund balance for capital improvement projects, including schools;
- € \$1.6 million appropriations transferred to other funds to fund payroll increases and the increased retirement rate charged by the Virginia Retirement System; and
- € \$247,000 net budget reduction in tax revenues as a result of the removal of the hotel flat tax.

Actual total revenues exceeded the amended budget by \$21 million, largely due to higher than expected revenues from current and delinquent property tax collections and other local taxes, generated by a strong real estate market. Local sales taxes, consumer telephone taxes, business licenses taxes, taxes on recordation and wills and restaurant food taxes all provided excess revenues. Expenditures were significantly below budget by \$4.4 million. This positive budget variance more than provided for the planned increase in designated fund balance and reserves in the amount of \$2.4 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, 2005, amounts to approximately \$1.5 billion (net of accumulated depreciation). This investment includes land, municipal and school buildings and improvements, drainage and water/sewer systems, machinery and equipment, roads, bridges, and construction in progress. The total change in the City's investment in capital assets for the current year was a net increase of 5% (an increase of 3% for governmental activities and an increase of 9% for business-type activities).

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2005

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

- € The City capitalized the \$28.5 million AIW bridge in governmental activities and added \$33 million to construction in progress in business-type activities for the Lake Gaston water treatment project.
- € Construction in progress totaled \$56.2 million for governmental activities at the end of the fiscal year (including certain Public Schools projects under construction).
- € Construction in progress totaled \$83.3 million for business-type activities at the end of the fiscal year.

The City's fiscal year 2006 capital budget calls for \$30.9 million for capital projects, including \$4.5 million for a new animal control bureau shelter, \$1.6 million for the Campostella Square Library, \$3.1 million for a probation and parole building, \$3.1 million for Fire Station #3 in the Indian River section of the City and \$3 million for design and site work for Oscar Smith Middle School replacement. The City plans to issue \$18 million in bonds with other funding provided by local and State funds.

City of Chesapeake's Capital Assets (net of accumulated depreciation) June 30, 2005 and 2004 (in millions)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 261.9	\$ 258.1	17.7	17.2	279.6	275.3
Construction in progress	56.2	40.7	83.3	48.8	139.5	89.5
Buildings	377.1	382.6	5.0	3.8	382.1	386.4
Improvements other than buildings	18.7	20.3	1.0	1.0	19.7	21.3
Equipment and vehicles	26.5	24.7	3.6	4.4	30.1	29.1
Infrastructure	279.5	263.0	356.2	353.4	635.7	616.4
Total	\$ 1,019.9	989.4	466.8	428.6	1,486.7	1,418.0

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 \$526,674,976. Of this amount, \$505,044,976 comprises debt backed by the full faith and credit of the City and \$21,630,000 is debt secured by revenues of the Chesapeake Expressway Fund.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2005

City of Chesapeake's Outstanding Debt General Obligation, Revenue Bonds, and Literary Loans June 30, 2005 and 2004 (in millions)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 364.0	\$ 355.0	135.3	133.1	499.3	488.1
Revenue bonds	-	-	21.6	29.1	21.6	29.1
Literary loans	5.7	6.3	-	-	5.7	6.3
Total	\$ 369.7	361.3	156.9	162.2	526.6	523.5

Chesapeake's total bonded debt increased by \$3.1 million during the fiscal year. The City refunded \$7.5 million public improvement and water and sewer revenue refunding bonds for a net reduction of \$570,000 in outstanding debt. New debt issued, in the amount of \$33.1 million, was largely offset by budgeted debt principal repayments amounting to \$29.4 million. Principal outstanding on lease revenue bonds backed by the City's general obligation pledge in the amount of \$4.9 million, issued by a blended component unit, CSB of Chesapeake, Inc., have been reported with the City's total debt outstanding for governmental activities.

The City maintains an AA rating from Standard & Poor's Corporation on general obligation bond issues. Under Moody's Investors Service, the City maintains an Aa2 rating. The public utility revenue bonds have been rated Aa3 by Moody's and AA by Standard & Poor's Corporation. Chesapeake Expressway toll road revenue bonds are rated 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 \$1,471,323,864, 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.

CITY OF CHESAPEAKE, VIRGINIA

Management's Discussion and Analysis, Continued
Year ended June 30, 2005

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- € The average unemployment rate for fiscal year 2005 for the City of Chesapeake is 3.6%, versus 3.7% for 2004. This compares to the state's average unemployment rate of 3.5% and the average national rate of 5.3%.
- € Chesapeake's annual population growth rate has slowed over the past several years, from a high of 4.73% between 1986 and 1987, to 1.99% between 2004 and 2005.
- € The 11% growth in the City's tax base, and the resultant effect on the Chesapeake homeowner, was partially offset by the reduction of the City's real estate tax rate by \$.05, effective July 1, 2005.
- € To help address the identified School and City capital backlog, funds continue to be reserved in the General Fund for Schools Future Capital Projects ("School Lock Box") and City Future Capital Projects ("City Lock Box"), to provide resources for future debt service and cash funding for projects.

All of these factors were considered in preparing Chesapeake's budget for the 2006 fiscal year.

During the current fiscal year, undesignated fund balance in the General Fund increased from \$22.2 million to \$44.4 million. The fiscal year 2006 operating budget includes a planned use of General Fund fund balance in the amount of \$15,000 to fund a fine arts program. The real estate tax rate was reduced from \$1.26 per \$100 value to \$1.21 per \$100 value. Stormwater rates, as well as water rates for the Public Utilities Fund, remained stable.

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, 2005

	Governmental Activities	Business - Type Activities	Total Primary Government	Discretely Presented Component Units	
				Public Schools	Others
ASSETS					
Cash and temporary investments (note 2)	\$ 143,875,623	20,936,720	164,812,343	24,247,449	5,183,685
Receivables, net of allowance for uncollectible amounts (note 3)	38,669,071	8,460,430	47,129,501	16,764,282	35,330,759
Due from component units, net of allowance for uncollectibles (note 7)	602,500	-	602,500	-	-
Internal balances (note 1)	1,078,440	(1,078,440)	-	-	-
Inventories	346,434	494,739	841,173	1,038,928	6,380,482
Prepaid expense	866,353	34,431	900,784	708,451	-
Restricted assets (note 2):					
Cash and temporary investments with trustee	4,414,863	1,650,112	6,064,975	-	-
Cash restricted for debt service	-	1,502,327	1,502,327	-	-
Cash restricted for debt service with trustee	-	3,552,557	3,552,557	-	-
Cash with State Set-Aside (note 6)	721,934	-	721,934	-	-
Capital construction:					
Cash and temporary investments	61,114,404	33,190,251	94,304,655	5,801,535	-
Cash and temporary investments with trustee	7,308,014	2,318,953	9,626,967	-	-
Capital assets (notes 4, 6, and 9):					
Land	261,849,156	17,652,801	279,501,957	16,846,470	1,141,308
Construction in progress	56,231,506	83,305,098	139,536,604	2,102,195	-
Buildings	509,769,113	5,493,339	515,262,452	36,761,695	1,246,523
Improvements other than buildings	24,821,799	1,333,914	26,155,713	2,433,648	14,518,604
Equipment and vehicles	74,385,026	8,890,022	83,275,048	50,619,804	952,573
Infrastructure	974,223,940	481,743,070	1,455,967,010	-	-
Accumulated depreciation	(881,344,158)	(131,585,356)	(1,012,929,514)	(34,518,616)	(6,469,449)
Other assets	1,359,281	995,893	2,355,174	-	111,236
Total assets	\$ 1,280,293,299	538,890,861	1,819,184,160	122,805,841	58,395,721
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable and accrued expenses (note 3)	\$ 17,454,768	5,762,070	23,216,838	31,360,054	440,445
Deferred revenue	3,627,677	2,366,253	5,993,930	24,368	21,597
Matured bonds payable (note 6)	1,955,000	-	1,955,000	-	-
Due to primary government (note 7)	-	-	-	-	2,866,002
Long-term liabilities (notes 6, 9, 10, and 15):					
Due within one year	46,387,033	6,043,146	52,430,179	5,285,899	3,023,573
Due in more than one year	441,814,754	226,778,392	668,593,146	29,721,749	35,771,248
Total liabilities	511,239,232	240,949,861	752,189,093	66,392,070	42,122,865
Net assets					
Invested in capital assets, net of related debt	588,733,474	249,688,287	838,421,761	67,464,238	8,722,059
Restricted for:					
Capital projects	9,684,866	2,061,689	11,746,555	6,602,465	-
Debt service	10,976,974	5,710,688	16,687,662	-	-
Other purposes:					
Expendable	1,270,039	38,493,631	39,763,670	-	-
Nonexpendable	12,795	-	12,795	-	-
Unrestricted	158,375,919	1,986,705	160,362,624	(17,652,932)	7,550,797
Total net assets	769,054,067	297,941,000	1,066,995,067	56,413,771	16,272,856
Total liabilities and net assets	\$ 1,280,293,299	538,890,861	1,819,184,160	122,805,841	58,395,721

CITY OF CHESAPEAKE, VIRGINIA

Schedule B

Statement of Activities
Year Ended June 30, 2005

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Discretely Presented	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units	
								Public Schools	Others
PRIMARY GOVERNMENT									
Governmental activities:									
General government	\$ 102,155,781	12,691,638	20,643,407	220,556	(68,600,180)	-	(68,600,180)	-	-
Public safety	71,944,068	5,140,050	7,700,829	-	(59,103,189)	-	(59,103,189)	-	-
Public works	40,171,186	1,379,049	23,423,119	34,548,087	19,179,069	-	19,179,069	-	-
Parks	4,040,492	174,071	112,725	-	(3,753,696)	-	(3,753,696)	-	-
Public welfare	37,546,666	2,121,147	23,537,371	328,470	(11,559,678)	-	(11,559,678)	-	-
Education	143,874,317	-	2,252,275	520,057	(141,101,985)	-	(141,101,985)	-	-
Interest on long term debt	19,215,361	-	-	-	(19,215,361)	-	(19,215,361)	-	-
Depreciation and amortization - net unallocated portion (note 4)	21,051,803	-	-	-	(21,051,803)	-	(21,051,803)	-	-
Total governmental activities	439,999,674	21,505,955	77,669,726	35,617,170	(305,206,823)	-	(305,206,823)	-	-
Business-type activities:									
Public Utilities	39,964,142	39,725,069	1,107,458	8,134,879	-	9,003,264	9,003,264	-	-
Chesapeake Expressway	8,822,878	6,911,794	141,498	-	(1,769,586)	-	(1,769,586)	-	-
Stormwater Management	3,578,748	4,600,299	-	-	1,021,551	-	1,021,551	-	-
Northwest River Park	103,767	138,998	-	-	35,231	-	35,231	-	-
Jordan Bridge	1,111,030	1,649,017	-	-	537,987	-	537,987	-	-
Recreation	629,371	630,819	-	-	1,448	-	1,448	-	-
Total business-type activities	54,209,936	53,655,996	1,248,956	8,134,879	8,829,895	-	8,829,895	-	-
Total primary government	\$ 494,209,610	75,161,951	78,918,682	43,752,049	(305,206,823)	8,829,895	(296,376,928)	-	-
COMPONENT UNITS									
Public Schools	\$ 348,832,222	7,287,354	58,446,998	2,181,385	-	-	(280,916,485)	-	-
Chesapeake Mosquito Control Commission	3,606,347	-	4,270,559	-	-	-	-	664,212	-
Economic Development Authority	2,760,873	-	2,843,939	-	-	-	-	-	83,066
Chesapeake Port Authority	2,000	-	2,017	-	-	-	-	-	17
Chesapeake Airport Authority	1,151,836	278,615	1,620,116	-	-	-	-	-	746,895
Total component units	\$ 356,353,278	7,565,969	67,183,629	2,181,385	-	-	(280,916,485)	-	1,494,190
General revenues:									
Taxes:									
Property taxes, levied for general purposes					\$ 224,842,486	-	224,842,486	-	-
Local sales and use taxes					31,989,281	-	31,989,281	-	-
Business license taxes					21,461,924	-	21,461,924	-	-
Consumer utility taxes					20,087,144	-	20,087,144	-	-
Other taxes					38,078,922	-	38,078,922	-	-
Payment from City					-	-	-	136,398,571	-
Grants and contributions not restricted to specific programs					31,790,594	-	31,790,594	145,451,853	-
Unrestricted investment earnings					3,132,655	185,162	3,317,817	73,136	-
Miscellaneous					990,374	-	990,374	651,726	-
Transfers					849,137	(849,137)	-	-	-
Total general revenues and transfers					373,222,517	(663,975)	372,558,542	282,575,286	-
Change in net assets					68,015,694	8,165,920	76,181,614	1,658,801	1,494,190
Net assets - beginning					701,038,373	289,775,080	990,813,453	54,754,970	14,778,666
Net assets - ending					\$ 769,054,067	297,941,000	1,066,995,067	56,413,771	16,272,856

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, 2005

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and temporary investments	\$ 87,563,533	22,775,926	-	12,640,961	122,980,420
Intergovernmental revenues due from (note 3):					
Commonwealth of Virginia:					
Local sales tax	2,669,737	-	-	-	2,669,737
Shared expenditures	861,358	-	-	-	861,358
State categorical aid	130,141	-	-	1,663,195	1,793,336
Street construction and maintenance	5,702,461	-	-	-	5,702,461
Personal property tax relief	7,854,384	-	-	-	7,854,384
Other	535,970	-	135,681	-	671,651
Federal government	51,317	-	401,483	1,406,466	1,859,266
Receivables (note 3):					
Property taxes	14,373,504	-	-	-	14,373,504
Accounts receivable	244,330	-	-	747,014	991,344
Utility taxes	1,489,562	-	-	-	1,489,562
Interest	448,929	60,165	12,784	-	521,878
Fines	257,984	-	-	-	257,984
Ambulance fees	2,688,463	-	-	-	2,688,463
Restaurant and food tax	1,516,396	-	-	-	1,516,396
Other	2,290,451	-	-	20,000	2,310,451
Allowance for uncollectible amounts	(6,565,641)	-	-	-	(6,565,641)
Due from other funds (note 8)	539,225	296,608	-	-	835,833
Prepaid expenditures and other assets	67,408	-	-	-	67,408
Restricted assets:					
Cash and temporary investments with trustee	-	4,414,863	-	-	4,414,863
Cash with State Set-Aside (note 6)	721,934	-	-	-	721,934
Capital construction:					
Cash and temporary investments	-	-	61,114,404	-	61,114,404
Cash and temporary investments with trustee	-	-	7,308,014	-	7,308,014
Advances to component units (note 7):					
Economic Development Authority	1,319,095	-	-	-	1,319,095
Chesapeake Airport Authority	232,000	370,500	-	-	602,500
Chesapeake Port Authority	944,407	-	-	-	944,407
Allowance for doubtful accounts	(2,263,502)	-	-	-	(2,263,502)
Total assets	\$ 123,673,446	27,918,062	68,972,366	16,477,636	237,041,510

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule C, Continued

Balance Sheet
 Governmental Funds
 June 30, 2005

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable (note 3)	\$ 3,104,905	600	-	1,981,952	5,087,457
Deposits (note 3)	2,937,222	-	-	6,571	2,943,793
Accrued expenditures (note 3)	4,557,716	40,614	-	56,112	4,654,442
Deferred revenues (note 5)	12,271,946	-	-	388,934	12,660,880
Payables from restricted assets:					
Matured certificates of participation payable	-	1,955,000	-	-	1,955,000
Matured interest payable (note 3)	-	109,435	-	-	109,435
Construction projects payable (note 3)	-	-	2,638,812	-	2,638,812
Due to other funds (note 8)	-	-	296,608	539,225	835,833
Total liabilities	22,871,789	2,105,649	2,935,420	2,972,794	30,885,652
Fund balances					
Reserved (note 11):					
Expendable	11,689,066	2,876,601	76,424,782	464,443	91,454,892
Nonexpendable	-	-	-	12,795	12,795
Unreserved:					
Designated for debt service	-	22,935,812	-	-	22,935,812
Designated for cash flow emergencies (note 1)	25,590,428	-	-	-	25,590,428
Designated for operating emergencies (note 1)	17,355,561	-	-	-	17,355,561
Designated - General Fund	1,772,905	-	-	-	1,772,905
Designated - Special Revenue Funds	-	-	-	62,553	62,553
Undesignated	44,393,697	-	(10,387,836)	-	34,005,861
Undesignated - Special Revenue Funds	-	-	-	12,823,816	12,823,816
Undesignated - Permanent Funds	-	-	-	141,235	141,235
Total fund balances	100,801,657	25,812,413	66,036,946	13,504,842	206,155,858
Total liabilities and fund balances	\$ 123,673,446	27,918,062	68,972,366	16,477,636	237,041,510

(Continued)

Balance Sheet
 Governmental Funds
 June 30, 2005

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 \$ 206,155,858

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds. Anticipated funding for assets expected to be reimbursed are removed from the Statement of Net Assets. Total capital assets used in governmental activities as reported in footnote 4 to the financial statements also include assets of \$21,422,838 associated with the internal service funds as indicated below.

Capital assets	998,513,544	
Amounts due from others	(531,918)	
		997,981,626

Governmental funds report the effect of issuance costs when the debt is issued. These costs are deferred in the Statement of Net Assets. 1,359,281

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. 11,976,996

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets as detailed below. The total amount included in governmental activities does not include the portion allocable to business-type activities of \$1,078,440 as noted on Schedule E.

Capital assets	21,422,838	
Long-term debt	(28,506,974)	
Other assets and liabilities	22,500,421	
		15,416,285

Unmatured interest payable reported in governmental activities will not be paid with current financial resources, and therefore, is not reported in the funds. (4,141,166)

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 \$28,506,974 associated with the internal service funds as indicated above. (459,694,813)

Net assets of governmental activities **\$ 769,054,067**

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, 2005

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
General property taxes	\$ 224,529,435	-	-	286,127	224,815,562
Other local taxes	106,528,044	-	-	5,089,227	111,617,271
Licenses, permits, and fees	2,900,145	-	-	-	2,900,145
Fines and forfeitures	2,929,501	-	-	-	2,929,501
Investment income	1,574,787	613,276	1,022,597	150,982	3,361,642
Revenues from use of property	286,590	115,765	-	-	402,355
Charges for services	7,711,661	-	-	4,875,091	12,586,752
Miscellaneous local revenues	627,026	-	71,280	3,287	701,593
Recovered costs	867,472	-	75,188	2,579,935	3,522,595
Program income	-	-	-	172,643	172,643
Revenues from local developers	-	-	1,737,131	-	1,737,131
Intergovernmental revenues:					
Commonwealth of Virginia	76,487,792	220,556	509,466	14,665,085	91,882,899
Federal government	1,692,073	-	2,227,184	13,550,187	17,469,444
Chesapeake Public Schools	1,164,152	1,088,123	-	-	2,252,275
Total revenues	427,298,678	2,037,720	5,642,846	41,372,564	476,351,808
EXPENDITURES					
Current:					
General government	85,020,468	-	-	11,562,783	96,583,251
Public safety	66,119,196	-	-	4,355,476	70,474,672
Public works	41,022,326	-	-	-	41,022,326
Parks	3,665,554	-	-	266,566	3,932,120
Public welfare	-	-	-	37,357,981	37,357,981
Education - Payments to Public Schools	137,190,122	-	-	-	137,190,122
Capital outlay	-	-	28,084,222	6,876,035	34,960,257
Debt service	2,333,598	44,281,888	-	-	46,615,486
Total expenditures	335,351,264	44,281,888	28,084,222	60,418,841	468,136,215
Excess (deficiency) of revenues over (under) expenditures	\$ 91,947,414	(42,244,168)	(22,441,376)	(19,046,277)	8,215,593

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule D, Continued

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2005

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
OTHER FINANCING SOURCES (USES)					
Transfers from other funds (note 8)	\$ 911,921	44,112,486	5,071,844	18,284,396	68,380,647
General obligation bonds issued (note 6)	-	-	13,815,000	-	13,815,000
Transfers to other funds (note 8)	(63,547,992)	(230,834)	(1,713,057)	(3,425,339)	(68,917,222)
Payment to refunded bond escrow agent (note 6)	-	(913,530)	-	-	(913,530)
Premiums on general obligation bonds issued (note 6)	-	134,644	260,099	-	394,743
VPSA bond proceeds (note 6)	-	-	19,275,000	-	19,275,000
Premiums on VPSA bonds (note 6)	-	-	1,147,404	-	1,147,404
Total other financing sources (uses)	(62,636,071)	43,102,766	37,856,290	14,859,057	33,182,042
Net change in fund balances	29,311,343	858,598	15,414,914	(4,187,220)	41,397,635
Fund balance - beginning	71,490,314	24,953,815	50,622,032	17,692,062	164,758,223
Fund balance - ending	\$ 100,801,657	25,812,413	66,036,946	13,504,842	206,155,858

(Continued)

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2005

**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 \$ 41,397,635

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 are not reported in governmental funds, but are reported as revenues 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	(34,235,479)	
Capital outlay expenditures	37,540,590	
Donated assets	31,400,928	
Noncapitalizable assets related to closed projects	(4,214,405)	
		30,491,634

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. 279,948

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)	(34,524,518)	
Principal repayments	32,983,189	
		(1,541,329)

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	228,547	
Compensated absences	(954,646)	
Net pension obligation	11,349	
		(714,750)

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. (1,897,444)

Change in net assets of governmental activities \$ 68,015,694

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, 2005

	Enterprise Funds					Total	Internal Service Funds
	Public Utilities	Chesapeake Expressway	Stormwater Management	Other Enterprise Funds			
ASSETS							
Current assets:							
Cash and temporary investments	\$ 14,940,895	290,999	3,577,154	2,127,672	20,936,720	20,895,203	
Receivables (note 3):							
Accounts	7,581,546	130,832	1,491,174	25,187	9,228,739	159,808	
Interest	85,722	-	23,968	2,811	112,501	45,047	
Allowance for uncollectible amounts	(721,796)	-	(159,014)	-	(880,810)	-	
Inventory of materials and supplies	488,749	-	-	5,990	494,739	346,434	
Prepaid expenses	34,431	-	-	-	34,431	798,945	
Total current assets	22,409,547	421,831	4,933,282	2,161,660	29,926,320	22,245,437	
Noncurrent assets:							
Restricted assets:							
Cash and temporary investments with trustee	-	1,650,112	-	-	1,650,112	-	
Cash restricted for debt service	1,502,327	-	-	-	1,502,327	-	
Cash restricted for debt service with trustee	-	3,552,557	-	-	3,552,557	-	
Capital construction:							
Cash and temporary investments	28,098,741	240,950	4,850,560	-	33,190,251	-	
Cash and temporary investments with trustee	-	2,318,953	-	-	2,318,953	-	
Total restricted assets	29,601,068	7,762,572	4,850,560	-	42,214,200	-	
Noncurrent assets (note 4):							
Land	5,839,996	11,105,618	323,493	383,694	17,652,801	-	
Construction in progress	78,510,511	56,080	4,738,507	-	83,305,098	123,960	
Buildings	73,598	5,389,295	-	30,446	5,493,339	138,579	
Improvements other than buildings	1,260,121	-	-	73,793	1,333,914	405,938	
Equipment and vehicles	2,995,180	5,052,399	278,451	563,992	8,890,022	60,196,577	
Infrastructure	387,640,748	81,678,568	7,373,310	5,050,444	481,743,070	-	
Less accumulated depreciation	(108,950,213)	(18,239,005)	(780,558)	(3,615,580)	(131,585,356)	(39,442,216)	
Total capital assets, net of accumulated depreciation	367,369,941	85,042,955	11,933,203	2,486,789	466,832,888	21,422,838	
Other assets	822,810	173,083	-	-	995,893	-	
Total noncurrent assets	397,793,819	92,978,610	16,783,763	2,486,789	510,042,981	21,422,838	
Total assets	\$ 420,203,366	93,400,441	21,717,045	4,648,449	539,969,301	43,668,275	

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Statement of Net Assets
 Proprietary Funds
 June 30, 2005

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)	\$ 937,349	8,470	16,368	21,881	984,068	823,456	
Accrued expenses and other liabilities (note 3)	578,378	1,022,659	24,340	12,764	1,638,141	-	
Deposits (note 3)	484,480	-	-	-	484,480	-	
Deferred revenues (note 5)	-	-	2,279,509	86,744	2,366,253	-	
Construction projects payable (note 3)	2,599,979	55,402	-	-	2,655,381	-	
Current portion of long-term debt (note 6)	4,948,113	596,573	-	-	5,544,686	-	
Current portion of obligations under capital leases (note 6)	-	-	-	-	-	2,617,921	
Current portion of notes payable (note 6)	115,000	-	-	-	115,000	48,578	
Current portion of accrued vacation, sick pay, and overtime leave (note 6)	294,690	28,832	38,994	20,944	383,460	171,809	
Current portion of liability for self-insurance losses (notes 6 and 15)	-	-	-	-	-	4,199,290	
Total current liabilities	9,957,989	1,656,534	2,414,613	142,333	14,171,469	7,861,054	
Noncurrent liabilities:							
General obligation bonds (note 6)	132,943,656	-	-	-	132,943,656	-	
Revenue bonds (note 6)	-	21,388,950	-	-	21,388,950	-	
Accrual for arbitrage rebate (note 6)	37,124	-	-	-	37,124	-	
Due to Commonwealth of Virginia (note 6)	-	71,351,407	-	-	71,351,407	-	
Obligations under capital leases (note 6)	-	-	-	-	-	4,404,617	
Notes payable (note 6)	460,000	-	-	-	460,000	-	
Accrued vacation, sick pay, and overtime leave (note 6)	458,991	44,907	60,735	32,622	597,255	267,601	
Liability for self-insurance losses (notes 6 and 15)	-	-	-	-	-	16,797,158	
Total noncurrent liabilities	133,899,771	92,785,264	60,735	32,622	226,778,392	21,469,376	
Total liabilities	143,857,760	94,441,798	2,475,348	174,955	240,949,861	29,330,430	
Net Assets							
Invested in capital assets, net of related debt	240,958,556	(5,690,261)	11,933,203	2,486,789	249,688,287	14,855,288	
Restricted for:							
Capital projects	500,000	1,561,689	-	-	2,061,689	-	
Debt service	3,763,631	1,947,057	-	-	5,710,688	-	
Other purposes	31,123,419	1,140,158	7,308,494	-	39,572,071	-	
Unrestricted	-	-	-	1,986,705	1,986,705	(517,443)	
Total net assets	276,345,606	(1,041,357)	19,241,697	4,473,494	299,019,440	14,337,845	
Total liabilities and net assets	\$ 420,203,366	93,400,441	21,717,045	4,648,449	539,969,301	43,668,275	

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

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, 2005

	Enterprise Funds					Internal Service Funds
	Public Utilities	Chesapeake Expressway	Stormwater Management	Other Enterprise Funds	Total	
OPERATING REVENUES						
Charges for services:						
Sale of water	\$ 25,553,752	-	-	-	25,553,752	-
Billings to departments	-	-	-	-	-	24,428,551
Sewer service charges	7,714,331	-	-	-	7,714,331	-
Stormwater management fees	-	-	4,593,899	-	4,593,899	-
Tolls and tickets	-	6,902,035	-	1,348,623	8,250,658	-
Rental fees	1,031,895	-	-	-	1,031,895	-
Connection fees	4,741,139	-	-	-	4,741,139	-
Recreation fees	-	-	-	769,817	769,817	-
Other	683,952	9,759	6,400	300,394	1,000,505	6,545
Total operating revenues	39,725,069	6,911,794	4,600,299	2,418,834	53,655,996	24,435,096
OPERATING EXPENSES						
Cost of materials billed	-	-	-	-	-	4,360,655
Purchases for resale	10,640,090	-	-	32,901	10,672,991	-
Water production	5,026,505	-	-	-	5,026,505	-
Sewer maintenance and operation	3,897,766	-	-	-	3,897,766	-
Water maintenance and operation	2,031,932	-	-	-	2,031,932	-
Customer service	1,112,796	-	-	-	1,112,796	-
General and administrative	1,599,159	395,896	866,956	-	2,862,011	-
Technical services	1,129,836	-	310,936	-	1,440,772	-
Other salaries and wages	-	1,003,325	1,366,926	649,164	3,019,415	4,395,626
Other fringe benefits	-	375,962	596,484	206,336	1,178,782	1,571,815
Self-insurance losses	-	-	-	-	-	4,401,289
Indemnity and medical claims	-	-	-	-	-	2,395,275
Other repairs and supplies	-	41,162	135,180	80,216	256,558	3,167,618
Equipment rental	-	-	-	1,929	1,929	425,324
Other contractual services	-	402,761	-	45,755	448,516	808,800
Depreciation and amortization	7,797,799	4,395,453	189,111	237,726	12,620,089	4,621,234
Insurance premiums	-	-	-	-	-	1,144,178

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule F, Continued

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

Proprietary Funds

Year Ended June 30, 2005

	Enterprise Funds					Internal Service Funds
	Public Utilities	Chesapeake Expressway	Stormwater Management	Other Enterprise Funds	Total	
OPERATING EXPENSES, continued						
Recreation	-	-	-	244,538	244,538	-
Meter reading services	210,928	-	-	-	210,928	-
Other	3,437	27,776	1,207	345,603	378,023	756,737
Total operating expenses	33,450,248	6,642,335	3,466,800	1,844,168	45,403,551	28,048,551
Operating income (loss)	6,274,821	269,459	1,133,499	574,666	8,252,445	(3,613,455)
NONOPERATING REVENUES (EXPENSES)						
Investment income	1,107,458	141,498	138,751	46,411	1,434,118	387,562
Interest expense	(6,289,998)	(2,180,543)	-	-	(8,470,541)	(274,962)
Loss on sale of equipment	-	-	-	-	-	(118,145)
Total nonoperating revenues (expenses)	(5,182,540)	(2,039,045)	138,751	46,411	(7,036,423)	(5,545)
Income (loss) before transfers and contributions	1,092,281	(1,769,586)	1,272,250	621,077	1,216,022	(3,619,000)
Transfers in (note 8)	13,075	-	-	-	13,075	1,559,841
Transfers out (note 8)	(400,000)	(430,790)	-	(31,422)	(862,212)	(174,129)
Capital contributions	8,134,879	-	-	-	8,134,879	-
Increase (decrease) in net assets	8,840,235	(2,200,376)	1,272,250	589,655	8,501,764	(2,233,288)
Total net assets - beginning	267,505,371	1,159,019	17,969,447	3,883,839	290,517,676	16,571,133
Total net assets - ending	\$ 276,345,606	(1,041,357)	19,241,697	4,473,494	299,019,440	14,337,845

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

\$ 8,501,764
 (335,844)
 8,165,920

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, 2005

	Enterprise Funds					Total	Internal Service Funds
	Public Utilities	Chesapeake Expressway	Stormwater Management	Other Enterprise Funds			
CASH FLOWS FROM OPERATING ACTIVITIES							
Cash received from customers	\$ 40,436,099	6,885,769	4,567,194	2,451,407	54,340,469	24,473,200	
Payments to suppliers	(19,129,325)	(882,545)	(1,335,216)	(781,714)	(22,128,800)	(15,843,191)	
Payments to employees	(6,358,085)	(1,357,631)	(1,948,940)	(854,512)	(10,519,168)	(5,956,413)	
Net cash provided by operating activities	14,948,689	4,645,593	1,283,038	815,181	21,692,501	2,673,596	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfers in	13,075	-	-	-	13,075	64,586	
Transfers out	(400,000)	(430,790)	-	-	(830,790)	(100,000)	
Repayments of obligations under capital leases for equipment not capitalized	-	-	-	-	-	(301,412)	
Net cash used in noncapital financing activities	(386,925)	(430,790)	-	-	(817,715)	(336,826)	
Refunding bonds issued	6,920,000	-	-	-	6,920,000	-	
Proceeds from Commonwealth of Virginia	-	3,185,455	-	-	3,185,455	-	
Transfers in	-	-	-	-	-	1,495,255	
Payment to escrow agent for refunded bonds (note 6)	(7,505,856)	-	-	-	(7,505,856)	-	
Payment of bond issuance costs	(62,172)	-	-	-	(62,172)	-	
Discount on issuance of refunding bonds	(24,516)	-	-	-	(24,516)	-	
Acquisition of capital assets	(35,946,851)	(4,778,003)	(1,338,840)	(10,354)	(42,074,048)	(2,386,590)	
Interest paid	(6,383,719)	(2,163,001)	-	-	(8,546,720)	(274,962)	
Repayments of obligations under capital leases	-	-	-	-	-	(2,321,774)	
Repayments of notes payable	(115,000)	-	-	-	(115,000)	(73,271)	
Repayments of long-term debt	(4,879,099)	(1,191,510)	-	-	(6,070,609)	-	
Other debt payments	-	(8,593)	-	-	(8,593)	-	
Net cash used in capital and related financing activities	(47,997,213)	(4,955,652)	(1,338,840)	(10,354)	(54,302,059)	(3,561,342)	

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Statement of Cash Flows
 Proprietary Funds
 Year Ended June 30, 2005

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	\$ 1,087,439	141,498	127,848	43,949	1,400,734	369,273
Transfers out	-	-	-	(31,422)	(31,422)	(74,129)
Net cash provided by investing activities	1,087,439	141,498	127,848	12,527	1,369,312	295,144
Net increase (decrease) in cash and temporary investments	(32,348,010)	(599,351)	72,046	817,354	(32,057,961)	(929,428)
Cash and temporary investments beginning of year	76,889,973	8,652,922	8,355,668	1,310,318	95,208,881	21,824,631
Cash and temporary investments end of year	\$ 44,541,963	8,053,571	8,427,714	2,127,672	63,150,920	20,895,203
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	\$ 6,274,821	269,459	1,133,499	574,666	8,252,445	(3,613,455)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation and amortization	7,797,799	4,395,453	189,111	237,726	12,620,089	4,621,234
Change in assets and liabilities increasing (decreasing) cash and temporary investments:						
Receivables	616,997	(26,025)	(56,044)	(6,262)	528,666	38,104
Inventory of materials and supplies	8,157	-	-	4,785	12,942	(107,579)
Prepaid expenses and other assets	123	-	-	918	1,041	(71,081)
Accounts payable	105,914	(14,950)	(20,937)	(36,475)	33,552	145,898
Deferred revenues	-	-	22,939	38,835	61,774	-
Deposits	94,033	-	-	-	94,033	-
Accrued expenses and other liabilities	8,719	4,046	4,948	(432)	17,281	1,649,447
Accrued vacation, sick pay, and overtime leave	42,126	17,610	9,522	1,420	70,678	11,028
Total adjustments	8,673,868	4,376,134	149,539	240,515	13,440,056	6,287,051
Net cash provided by operating activities	\$ 14,948,689	4,645,593	1,283,038	815,181	21,692,501	2,673,596
Supplemental information on significant noncash transactions:						
Public Utilities Fund:						
Contributions of capital assets	\$ 8,134,879					
Internal Service Funds:						
Borrowing under capital leases	\$ 1,748,028					

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, 2005

		Special Welfare
Assets		
Cash and temporary investments	\$	21,335
Total assets	\$	21,335
Liabilities		
Due to children under foster care	\$	21,335
Total liabilities	\$	21,335

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

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Other Discretely Presented Component Units

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

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

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

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



CITY OF CHESAPEAKE, VIRGINIA

Schedule I

Statement of Net Assets
 Other Discretely Presented Component Units
 June 30, 2005

	Governmental Activities				Business-type Activities			Total
	Chesapeake Mosquito Control Commission	Economic Development Authority	Chesapeake Port Authority	Chesapeake Airport Authority				
ASSETS								
Cash and temporary investments (note 2)	\$ 3,836,323	913,077	4,090	430,195			5,183,685	
Receivables, net of allowance for uncollectible amounts	-	35,055,124	-	275,635			35,330,759	
Inventories	373,492	6,006,990	-	-			6,380,482	
Capital assets:								
Land	204,340	-	-	936,968			1,141,308	
Buildings	1,246,523	-	-	-			1,246,523	
Improvements other than buildings	14,897	-	-	14,503,707			14,518,604	
Equipment and vehicles	797,713	-	-	154,860			952,573	
Accumulated depreciation	(355,132)	-	-	(6,114,317)			(6,469,449)	
Other assets	-	-	-	111,236			111,236	
Total assets	\$ 6,118,156	41,975,191	4,090	10,298,284			58,395,721	
LIABILITIES AND NET ASSETS								
Liabilities								
Accounts payable and accrued expenses	\$ 88,882	-	-	351,563			440,445	
Deferred revenue	-	3,405	-	18,192			21,597	
Due to primary government	-	1,319,095	944,407	602,500			2,866,002	
Current portion of long-term debt	-	2,923,573	-	100,000			3,023,573	
Long-term liabilities	-	33,806,248	-	1,965,000			35,771,248	
Total liabilities	88,882	38,052,321	944,407	3,037,255			42,122,865	
Net assets								
Invested in capital assets, net of related debt	1,908,341	-	-	6,813,718			8,722,059	
Unrestricted	4,120,933	3,922,870	(940,317)	447,311			7,550,797	
Total net assets	6,029,274	3,922,870	(940,317)	7,261,029			16,272,856	
Total liabilities and net assets	\$ 6,118,156	41,975,191	4,090	10,298,284			58,395,721	

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

CITY OF CHESAPEAKE, VIRGINIA

Schedule J

Statement of Activities
 Other Discretely Presented Component Units
 Year Ended June 30, 2005

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				Total
	Expenses	Charges for Services	Operating Grants and Contributions	Chesapeake Mosquito Control Commission	Economic Development Authority	Chesapeake Port Authority	Chesapeake Airport Authority	
Governmental Type Activities								
Chesapeake Mosquito Control Commission	\$ 3,606,347	-	4,270,559	664,212	-	-	-	664,212
Business-type Activities								
Economic Development Authority	2,760,873	-	2,843,939	-	83,066	-	-	83,066
Chesapeake Port Authority	2,000	-	2,017	-	-	17	-	17
Chesapeake Airport Authority	1,151,836	278,615	1,620,116	-	-	-	746,895	746,895
Total component units	\$ 7,521,056	278,615	8,736,631	664,212	83,066	17	746,895	1,494,190
Change in net assets				\$ 664,212	83,066	17	746,895	1,494,190
Net assets - beginning				5,365,062	3,839,804	(940,334)	6,514,134	14,778,666
Net assets - ending				\$ 6,029,274	3,922,870	(940,317)	7,261,029	16,272,856

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Notes to Basic Financial Statements



CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(1) Summary of Significant Accounting Policies

The Reporting Entity

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

The City's reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board and either (a) the ability to impose will by the primary government, or (b) the possibility that the component unit will provide a financial benefit or impose a financial burden on the primary government.

The accompanying financial statements present the City (the primary government) and its component units. The financial data of the component units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

All of the City's component units are discretely presented except the CSB of Chesapeake, Inc., (CSBC, Inc.) which is blended with the City's governmental activities. Discretely presented component units are entities that are legally separate from the City, but for which the City is financially accountable, or whose relationships with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. These component units are reported in separate columns to emphasize that they are legally separate from the City. All of the City's component units have a fiscal year end of June 30. The following component units are discretely presented in the City's financial statements:

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

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(1) Continued

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

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

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

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(1) Continued

€ The Chesapeake Mosquito Control Commission (the Commission) manages the City's insecticide program. The City finances the operations of the Commission through incremental property taxes of \$.02 per \$100 of assessed value for real estate properties and \$.08 per \$100 of assessed value for personal property. The Commission does not issue separate audited financial statements.

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

Government-wide and Fund Financial Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. Likewise, the primary government is reported separately from certain legally separate discretely presented component units for which the primary government is financially accountable.

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

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(1) Continued

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Included in direct expenses are certain indirect costs that have been allocated to the various programs. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and the fiduciary fund, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The fiduciary fund financial statements are custodial in nature, do not involve the measurement of results of operations, and use the accrual basis of accounting.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are susceptible to accrual (i.e. both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period, usually within 30-45 days after year end. Expenditures, other than interest on long-term debt which is recorded when due, are recorded when the related fund liability is incurred.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(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, 2005

(1) Continued

The City reports the following major proprietary funds:

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

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

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

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

Additionally, the City reports the following fund types:

Nonmajor governmental funds:

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

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

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(1) Continued

Nonmajor proprietary funds:

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

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

Fiduciary fund:

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting* (Statement No. 20), the government-wide financial statements and the fund financial statements of the proprietary fund types follow all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements and predecessor APB Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989 that do not contradict or conflict with GASB pronouncements. Under paragraph 7 of Statement No. 20, the City has elected not to apply FASB pronouncements issued after November 30, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's public utility function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(1) Continued

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for sales and services. The Public Utilities Enterprise Fund also recognizes certain rental fees as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

In all funds, when both restricted and unrestricted resources are available for a particular use and have not been earmarked for other purposes, it is the City's policy to use restricted resources first for any allowable costs. After restricted resources have been depleted, unrestricted resources are used as they are needed unless the City determines and documents otherwise.

Cash and Temporary Investments

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the Statement of Net Assets or Balance Sheet as "Cash and temporary investments." In addition, the City has restricted deposits held by trustees for future retirements of bonds at the appropriate call date, retirements of certain certificates of participation at maturity, and construction projects.

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

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

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(1) Continued

Receivables and Payables

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

In the fund statements, long-term interfund advances and advances to component units are recorded as receivables with corresponding reservations of fund balance by the advancing fund.

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

Provisions for uncollectible water, sewer, stormwater, and emergency medical bills are based upon a historical analysis of uncollected accounts and are applied as a percentage of delinquent/terminated accounts in the year end accounts receivable balance.

Provision for uncollectible property taxes is based upon a historical percentage of accounts written off applied to the total levies of all years carried in taxes receivable.

The two major sources of property taxes are described below as reported in the fund financial statements:

Real Estate

Each year as of July 1, the City levies real estate taxes on all real estate within its boundaries, except that exempted by statute. Real estate taxes are levied on the estimated market value of the property and become a lien on real property the first day of the levy year. The City follows the practice of reassessing all property annually.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(1) Continued

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, 2004, less an allowance for uncollectible amounts and taxes not collected within 45 days after year end. The tax rate for 2005 was \$1.26 per \$100 of assessed value with an additional \$.02 per \$100 of assessed value for mosquito control services.

Personal Property

The City levies personal property taxes on motor vehicles and tangible personal business property. These levies are made each year as of January 1 with payment due the following June 5. The current year personal property taxes reported as revenue are the levies on assessed valuation at January 1, 2005 less an allowance for uncollectible amounts and taxes not collected within 45 days after year end. The tax rate for 2005 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.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(1) Continued

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, 2005.

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.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(1) Continued

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.

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 \$16,505,980. However, the designation was increased by \$280,000 during fiscal year 2004 and by \$569,581 during fiscal year 2005. The balance of this designation at June 30, 2005 is \$17,355,561.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(2) Deposits and Investments

Deposits

All cash of the City is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. Seq. of the Code of Virginia, or covered by federal depository insurance. The cash balance, including certificates of deposit and repurchase agreements, as of June 30, 2005 is \$46,172,814 including petty cash of \$30,825 and cash in the fiduciary fund of \$21,335. The restricted cash balance as of June 30, 2005 is \$2,758,859 which consists of a repurchase agreement of \$2,036,925 and cash of \$721,934 being held by the Commonwealth of Virginia.

Investments

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

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

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule K, Continued

Notes to Basic Financial Statements
June 30, 2005

(2) Continued

Investments by type at year-end are shown below:

	Average Days to Maturity	Minimum Legal Rating	AAA	AA	AIP1	A1+P1	Unrated
Investments:							
Commercial paper	69	A1/P1/F1	\$ -	-	29,463,088	53,016,193	-
U.S. Government-sponsored coupon securities	405	n/a	65,292,649	-	-	-	-
U.S. Government-sponsored discount securities	122	n/a	26,825,625	-	-	-	-
U.S. Government strip securities	122	n/a	-	-	-	-	129,353
Corporate notes	177	AA or A	2,348,119	3,473,927	-	-	-
Local Government Investment Pool	n/a	n/a	40,540,473	-	-	-	-
Virginia State Non-Arbitrage Program	n/a	n/a	26,094,578	-	-	-	-
Evergreen/U.S. Government Portfolio	n/a	n/a	104,217	-	-	-	-
Money market deposit	n/a	n/a	-	-	-	-	564,931
Total			\$ 161,205,661	3,473,927	29,463,088	53,016,193	694,284
Restricted investments:							
Money market funds	1	n/a	\$ -	-	-	-	11,650
Money market deposit	1	n/a	-	-	-	-	500,000
U.S. Treasury securities	364	n/a	-	-	-	-	2,231,603
Virginia State Non-Arbitrage Program	1	n/a	4,485,728	-	-	-	-
Federated U.S. money market fund	1	n/a	3,959,531	-	-	-	-
U.S. Government-sponsored coupon securities	448	n/a	1,604,367	-	-	-	-
U.S. Government-sponsored discount securities	11	n/a	202,679	-	-	-	-
STI Classic funds	1	n/a	1,578,848	-	-	-	-
Commonwealth Cash Reserve Fund	n/a	n/a	3,133,168	-	-	-	-
Total			\$ 14,964,321	-	-	-	2,743,253

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(2) Continued

Credit Risk

Generally credit risk is the risk that, an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by nationally recognized statistical rating organizations. Presented above is the minimum rating required by the Virginia State Code, the City's investment policy, or the debt agreements as well as the actual investment ratings as of June 30, 2005.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2005, the City had custodial credit risk related to \$511,047 in an overnight repurchase agreement that was held by a financial institution's trust department or agent, but not in the City's name. This overnight repurchase agreement is included in the City's deposits.

Concentration of Credit Risk

The City places no limit on the amount that can be invested in any one issuer beyond that stipulated by Virginia State Code. At June 30, 2005, the City was holding investments in Federal Home Loan Bank of \$58,486,100 which represented 24% of the City's total investments. The City held no other investments by any one issuer that represented over five percent of the City's total investments, other than U.S. Treasury securities, mutual funds, and external investment pools.

Interest Rate Risk

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

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(2) Continued

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

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

Amounts Relating to Component Units

The cash and investments of the Public Schools and the Mosquito Control Commission component units have been pooled with the cash and investments of the primary government and, therefore, are included in the above information. The remaining component units, with cash and investments amounting to \$1,347,362, have been excluded because risk information is not available.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(2) Continued

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

Deposits and investments reported above:		
Pooled deposits	\$	46,172,814
Restricted deposits		2,758,859
Investments		265,560,727
Other component units		1,347,362
<hr/>		
Total deposits and investments reported above	\$	315,839,762
<hr/>		
Per Schedules A and H:		
Cash and temporary investments	\$	194,264,812
Cash and temporary investments with trustee		6,064,975
Cash restricted for debt service		1,502,327
Cash restricted for debt service with trustee		3,552,557
Cash with State Set-Aside		721,934
Capital construction:		
Cash and temporary investments		100,106,190
Cash and temporary investments with trustee		9,626,967
<hr/>		
Total capital construction		109,733,157
<hr/>		
Total cash and temporary investments per Schedules A and H	\$	315,839,762

(3) Accounts Receivable and Payable

Accounts receivable, net of allowance for uncollectibles, in the Statement of Net Assets as of June 30, 2005 are as follows:

	Governmental Activities	Business-Type Activities
Due from Commonwealth of Virginia	\$ 19,552,927	-
Due from Federal government	1,859,266	-
Due from customers	991,344	8,347,929
Property taxes receivable	9,574,391	-
Interest receivable	566,925	112,501
Other	6,124,218	-
<hr/>		
Total accounts receivable	\$ 38,669,071	8,460,430

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(3) Continued

Accounts receivable, net of allowance for uncollectibles, in the governmental funds as of June 30, 2005 are as follows:

	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds
Due from Commonwealth of Virginia	\$ 17,754,051	-	135,681	1,663,195
Due from Federal government	51,317	-	401,483	1,406,466
Property taxes receivable	9,574,391	-	-	-
Interest receivable	448,929	60,165	12,784	-
Other	6,720,658	-	-	767,014
Total accounts receivable	\$ 34,549,346	60,165	549,948	3,836,675

Property taxes receivable in the General Fund as of June 30, 2005 are as follows:

	Taxes Receivable	Allowance for Uncollectible Amounts	Net Taxes Receivable
Real property	\$ 5,584,111	1,087,145	4,496,966
Personal property	8,646,085	3,711,968	4,934,117
Public service corporations	143,308	-	143,308
Total property taxes receivable	\$ 14,373,504	4,799,113	9,574,391

The total allowance for uncollectible amounts in the General Fund is \$6,565,641, which includes a \$1,766,528 allowance for uncollectible emergency medical service fees.

Accounts receivable, net of allowance for uncollectibles, in the proprietary funds as of June 30, 2005 are as follows:

	Due From Customers	Interest Receivable
Public Utilities Fund	\$ 6,859,750	85,722
Chesapeake Expressway Fund	130,832	-
Stormwater Management Fund	1,332,160	23,968
Other enterprise funds	25,187	2,811
Internal Service Funds	159,808	45,047
Total accounts receivable	\$ 8,507,737	157,548

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(3) Continued

Accounts payable and accrued expenses in the Statement of Net Assets as of June 30, 2005 are as follows:

	Governmental Activities	Business-Type Activities
Accounts payable	\$ 5,910,913	1,468,548
Accrued expenses, excluding interest	4,654,442	95,723
Construction projects payable	2,638,812	2,655,381
Accrued interest	4,250,601	1,542,418
Total accounts payable and accrued expenses	\$ 17,454,768	5,762,070

Accounts payable, deposits, and accrued expenditures in the governmental funds as of June 30, 2005 are as follows:

	Accounts Payable and Deposits	Accrued Expenditures, Excluding Interest	Construction Projects Payable	Accrued Interest
General Fund	\$ 6,042,127	4,557,716	-	-
Debt Service Fund	600	40,614	-	109,435
Capital Projects Fund	-	-	2,638,812	-
Other governmental funds	1,988,523	56,112	-	-
Total accounts payable, deposits, and accrued expenditures	\$ 8,031,250	4,654,442	2,638,812	109,435

Accounts payable, deposits, and accrued expenses in the proprietary funds as of June 30, 2005 are as follows:

	Accounts Payable and Deposits	Accrued Expenses, Excluding Interest	Construction Projects Payable	Accrued Interest
Public Utilities Fund	\$ 1,421,829	43,183	2,599,979	535,195
Chesapeake Expressway Fund	8,470	15,436	-	1,007,223
Stormwater Management Fund	16,368	24,340	55,402	-
Other enterprise funds	21,881	12,764	-	-
Internal Service Funds	823,456	-	-	-
Total accounts payable, deposits, and accrued expenses	\$ 2,292,004	95,723	2,655,381	1,542,418

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(4) Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

**Primary government
Governmental activities:**

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 258,090,449	3,758,707	-	261,849,156
Construction in progress	40,681,141	28,420,049	(12,869,684)	56,231,506
Total capital assets, not being depreciated	298,771,590	32,178,756	(12,869,684)	318,080,662
Capital assets, being depreciated:				
Buildings	504,461,737	5,307,376	-	509,769,113
Improvements other than buildings	24,699,949	121,850	-	24,821,799
Equipment and vehicles	68,797,490	7,320,310	(1,732,774)	74,385,026
Infrastructure	936,734,934	37,489,006	-	974,223,940
Total capital assets, being depreciated	1,534,694,110	50,238,542	(1,732,774)	1,583,199,878
Less accumulated depreciation for:				
Buildings	(121,834,989)	(10,808,860)	-	(132,643,849)
Improvements other than buildings	(4,441,704)	(1,642,258)	-	(6,083,962)
Equipment and vehicles	(44,054,193)	(5,464,089)	1,614,630	(47,903,652)
Infrastructure	(673,771,189)	(20,941,506)	-	(694,712,695)
Total accumulated depreciation	(844,102,075)	(38,856,713)	1,614,630	(881,344,158)
Total capital assets being depreciated, net	690,592,035	11,381,829	(118,144)	701,855,720
Capital assets, net	\$ 989,363,625	43,560,585	(12,987,828)	1,019,936,382

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(4) Continued

Depreciation expense for governmental activities was charged to functions of the primary government for the year ended June 30, 2005 as follows:

General government	\$	5,986,789
Public safety		303,322
Public works		74,302
Public welfare		221,990
Parks		25,668
Education		6,684,195
Net unallocated portion (depreciation of general infrastructure assets)		20,939,213
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets		4,621,234
Total depreciation expense, governmental activities		\$ 38,856,713

Depreciation and amortization expense, net unallocated portion, for governmental activities of \$21,051,803 includes the unallocated portion of depreciation expense noted above of \$20,939,213 and amortization expense of bond costs of issuance of \$112,590.

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

Functions	Project authorization	Expended to June 30, 2005	Committed	Required Future Financing
General government	\$ 28,746,799	19,438,513	9,308,286	none
Public safety	4,043,690	2,509,615	1,534,075	none
Public works	43,242,360	23,311,748	19,930,612	none
Parks	9,233,263	1,782,589	7,450,674	none
Public welfare	4,885,824	4,776,155	109,669	none
Education	65,994,000	4,412,886	20,429,407	41,151,707
Total	\$ 156,145,936	56,231,506	58,762,723	41,151,707

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(4) Continued**Business-type activities:**

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 17,194,830	457,971	-	17,652,801
Construction in progress	48,807,470	42,570,678	(8,073,050)	83,305,098
Total capital assets, not being depreciated	66,002,300	43,028,649	(8,073,050)	100,957,899
Capital assets, being depreciated:				
Buildings	4,215,589	1,277,750	-	5,493,339
Improvements other than buildings	1,322,473	11,441	-	1,333,914
Equipment and vehicles	8,855,893	49,168	(15,039)	8,890,022
Infrastructure	467,186,528	14,556,542	-	481,743,070
Total capital assets, being depreciated	481,580,483	15,894,901	(15,039)	497,460,345
Less accumulated depreciation for:				
Buildings	(378,405)	(109,906)	-	(488,311)
Improvements other than buildings	(331,579)	(34,536)	-	(366,115)
Equipment and vehicles	(4,469,190)	(793,335)	15,039	(5,247,486)
Infrastructure	(113,820,525)	(11,662,919)	-	(125,483,444)
Total accumulated depreciation	(118,999,699)	(12,600,696)	15,039	(131,585,356)
Total capital assets being depreciated, net	362,580,784	3,294,205	-	365,874,989
Capital assets, net	\$ 428,583,084	46,322,854	(8,073,050)	466,832,888

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(4) Continued

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

Public Utilities	\$	7,796,099
Chesapeake Expressway		4,377,760
Stormwater Management		189,111
Northwest River Park		3,690
Jordan Bridge		165,551
Recreation		68,485
<hr/>		
Total depreciation expense, business-type activities	\$	12,600,696

The estimated cost to complete the construction in progress of the business-type activities amounted to approximately \$29,600,000 at June 30, 2005. 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, 2005

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

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 5,633,966	206,030	-	5,839,996
Construction in progress	43,108,348	36,406,163	(1,004,000)	78,510,511
Total capital assets, not being depreciated	48,742,314	36,612,193	(1,004,000)	84,350,507
Capital assets, being depreciated:				
Buildings	73,598	-	-	73,598
Improvements other than buildings	1,248,680	11,441	-	1,260,121
Equipment and vehicles	2,956,366	38,814	-	2,995,180
Infrastructure	378,603,899	9,036,849	-	387,640,748
Total capital assets, being depreciated	382,882,543	9,087,104	-	391,969,647
Less accumulated depreciation for:				
Buildings	(20,852)	(2,490)	-	(23,342)
Improvements other than buildings	(323,898)	(30,846)	-	(354,744)
Equipment and vehicles	(2,168,086)	(173,781)	-	(2,341,867)
Infrastructure	(98,641,278)	(7,588,982)	-	(106,230,260)
Total accumulated depreciation	(101,154,114)	(7,796,099)	-	(108,950,213)
Total capital assets being depreciated, net	281,728,429	1,291,005	-	283,019,434
Capital assets, net	\$ 330,470,743	37,903,198	(1,004,000)	367,369,941

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(4) Continued

Chesapeake Expressway Fund:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 11,004,996	100,622	-	11,105,618
Construction in progress	617,620	4,777,944	(5,339,484)	56,080
Total capital assets, not being depreciated	11,622,616	4,878,566	(5,339,484)	11,161,698
Capital assets, being depreciated:				
Buildings	4,111,545	1,277,750	-	5,389,295
Equipment and vehicles	5,052,399	-	-	5,052,399
Infrastructure	77,717,456	3,961,112	-	81,678,568
Total capital assets, being depreciated	86,881,400	5,238,862	-	92,120,262
Less accumulated depreciation for:				
Buildings	(342,639)	(105,454)	-	(448,093)
Equipment and vehicles	(1,712,534)	(538,201)	-	(2,250,735)
Infrastructure	(11,806,072)	(3,734,105)	-	(15,540,177)
Total accumulated depreciation	(13,861,245)	(4,377,760)	-	(18,239,005)
Total capital assets being depreciated, net	73,020,155	861,102	-	73,881,257
Capital assets, net	\$ 84,642,771	5,739,668	(5,339,484)	85,042,955

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

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

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 172,174	151,319	-	323,493
Construction in progress	5,081,502	1,386,571	(1,729,566)	4,738,507
Total capital assets, not being depreciated	5,253,676	1,537,890	(1,729,566)	5,062,000
Capital assets, being depreciated:				
Equipment and vehicles	278,451	-	-	278,451
Infrastructure	5,814,729	1,558,581	-	7,373,310
Total capital assets, being depreciated	6,093,180	1,558,581	-	7,651,761
Less accumulated depreciation for:				
Equipment and vehicles	(237,092)	(12,868)	-	(249,960)
Infrastructure	(354,355)	(176,243)	-	(530,598)
Total accumulated depreciation	(591,447)	(189,111)	-	(780,558)
Total capital assets being depreciated, net	5,501,733	1,369,470	-	6,871,203
Capital assets, net	\$ 10,755,409	2,907,360	(1,729,566)	11,933,203

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(4) Continued

Discretely presented component unit - Public Schools:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land and land improvements	\$ 16,076,801	769,669	-	16,846,470
Construction in progress	904,729	3,986,316	(2,788,850)	2,102,195
Total capital assets, not being depreciated	16,981,530	4,755,985	(2,788,850)	18,948,665
Capital assets, being depreciated:				
Buildings	34,663,282	2,098,413	-	36,761,695
Improvements other than buildings	2,433,648	-	-	2,433,648
Furniture, equipment, vehicles, and textbooks	47,382,983	8,336,960	(5,100,139)	50,619,804
Total capital assets, being depreciated	84,479,913	10,435,373	(5,100,139)	89,815,147
Less accumulated depreciation for:				
Buildings	(4,633,917)	(2,052)	-	(4,635,969)
Improvements other than buildings	(1,814,028)	(669,656)	-	(2,483,684)
Furniture, equipment, vehicles, and textbooks	(27,386,097)	(4,747,335)	4,734,469	(27,398,963)
Total accumulated depreciation	(33,834,042)	(5,419,043)	4,734,469	(34,518,616)
Total capital assets being depreciated, net	50,645,871	5,016,330	(365,670)	55,296,531
Capital assets, net	\$ 67,627,401	9,772,315	(3,154,520)	74,245,196

Depreciation expense of \$5,419,043 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	\$ 5,352,900	-	-
Personal Property Tax Relief Act	6,004,405	-	-
Emergency medical service fees	619,691	-	-
Stormwater management fees	-	-	2,279,509
Other	294,950	388,934	86,744
Total deferred revenues	\$ 12,271,946	388,934	2,366,253

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(6) Long-Term Obligations

(a) A summary of changes in long-term obligations for governmental activities for the year ended June 30, 2005 follows:

	Balances at July 1, 2004	Increases	Decreases	Balances at June 30, 2005	Due Within One Year
Bonds payable:					
General obligation bonds	\$ 350,099,000	33,090,000	(24,107,430)	359,081,570	25,524,135
Lease revenue bond with general obligation pledge	4,940,000	-	(55,000)	4,885,000	110,000
	355,039,000	33,090,000	(24,162,430)	363,966,570	25,634,135
Deferred amounts:					
Plus bond premiums	17,986,536	1,542,147	(1,558,979)	17,969,704	1,623,687
Less refunding costs	(15,297,040)	-	1,461,869	(13,835,171)	(1,461,869)
Total bonds payable	357,728,496	34,632,147	(24,259,540)	368,101,103	25,795,953
Other long-term obligations:					
Net pension obligation	1,601,029	18,071,731	(18,083,080)	1,589,680	-
Certificates of participation	4,015,000	-	(1,955,000)	2,060,000	2,060,000
Notes payable	121,849	-	(73,271)	48,578	48,578
Arbitrage	126,757	-	-	126,757	-
Compensated absences	14,013,809	10,627,389	(9,661,715)	14,979,483	5,856,978
Literary loans	6,276,341	-	(549,493)	5,726,848	549,493
Capital leases	14,165,348	1,901,994	(3,954,452)	12,112,890	4,036,741
Capital leases to component unit	38,125,000	-	(3,790,000)	34,335,000	2,585,000
Supplemental Payments Agreement	26,820,000	-	(950,000)	25,870,000	995,000
Liability for self-insurance losses	19,347,001	8,785,881	(7,136,434)	20,996,448	4,199,290
Section 108 loan payable	2,500,000	-	(245,000)	2,255,000	260,000
Total long-term obligations	\$ 484,840,630	74,019,142	(70,657,985)	488,201,787	46,387,033

(Continued)

Schedule K, Continued

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(6) Continued

A summary of changes in long-term obligations for business-type activities for the year ended June 30, 2005 follows:

	Balances at July 1, 2004	Increases	Decreases	Balances at June 30, 2005	Due Within One Year
Public Utilities:					
Bonds payable:					
General obligation bonds	\$ 133,117,323	6,920,000	(4,685,765)	135,351,558	4,917,371
Revenue bonds	7,490,000	-	(7,490,000)	-	-
	140,607,323	6,920,000	(12,175,765)	135,351,558	4,917,371
Deferred amounts:					
Plus bond premiums	6,701,049	-	(324,672)	6,376,377	324,672
Less bond discounts	(15,490)	(24,516)	3,399	(36,607)	(4,216)
Less refunding costs	(3,667,955)	(407,727)	276,123	(3,799,559)	(289,714)
Total bonds payable	143,624,927	6,487,757	(12,220,915)	137,891,769	4,948,113
Notes payable	690,000	-	(115,000)	575,000	115,000
Arbitrage	37,124	-	-	37,124	-
Compensated absences	711,555	482,604	(440,478)	753,681	294,690
	145,063,606	6,970,361	(12,776,393)	139,257,574	5,357,803
Chesapeake Expressway:					
Revenue bonds	21,630,000	-	-	21,630,000	-
Less bond discount	(262,012)	-	10,481	(251,531)	(10,481)
Total bonds payable	21,367,988	-	10,481	21,378,469	(10,481)
Due to Commonwealth of Virginia	69,964,516	3,185,455	(1,191,510)	71,958,461	607,054
Compensated absences	56,129	54,642	(37,032)	73,739	28,832
	91,388,633	3,240,097	(1,218,061)	93,410,669	625,405
Stormwater Management:					
Compensated absences	90,207	89,996	(80,474)	99,729	38,994
Nonmajor business-type activities:					
Compensated absences	52,146	37,367	(35,947)	53,566	20,944
Total long-term obligations	\$ 236,594,592	10,337,821	(14,110,875)	232,821,538	6,043,146

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(6) Continued

A summary of changes in long-term obligations for the discretely presented component unit - Public Schools for the year ended June 30, 2005 follows:

	Balances at July 1, 2004	Increases	Decreases	Balances at June 30, 2005	Due Within One Year
Early retirement plan	\$ 2,364,560	-	(1,120,348)	1,244,212	885,976
Compensated absences	22,798,225	4,568,120	(1,517,883)	25,848,462	1,070,000
Net pension obligation	95,560	1,133	-	96,693	-
Liability for self-insurance losses	2,038,756	521,455	(1,522,888)	1,037,323	1,037,323
Capital leases	5,602,406	4,000,000	(2,821,448)	6,780,958	2,292,600
Total long-term obligations	\$ 32,899,507	9,090,708	(6,982,567)	35,007,648	5,285,899

The *Code of Virginia*, Section 22, sets forth the powers and responsibilities of the local school boards. School boards in Virginia have no taxing authority, but they are authorized to borrow money from the Commonwealth and to sell local school bonds through the City to the Virginia Public School Authority (VPSA).

In February 2002, the Virginia General Assembly passed Senate Bill 276 which was subsequently signed by the Governor of Virginia, that provides that localities have a tenancy in common with the school board whenever a locality incurs a financial obligation for school property which is payable over more than one fiscal year. As a result, the City records on its Statement of Net Assets certain school property that is purchased with City long-term obligations. However, the Public Schools are still tasked with all care, management, and control over these properties.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(6) Continued

(b) Outstanding bonds and loans at June 30, 2005 are comprised of the following issues:

	Remaining Interest Rates	Amount Outstanding
Governmental activities - General Obligation bonds		
1993 Public Improvement Refunding bonds	5.13% - 5.50%	\$ 17,148,442
1994 Public Improvement bonds	5.00% - 6.00%	5,275,000
1994A School bonds	6.10% - 6.60%	4,370,193
1995 School bonds	5.40%	11,000,000
1996 Public Improvement bonds	6.50%	3,500,000
1996A School bonds	5.10% - 6.10%	7,140,000
1997A School bonds	5.35% - 6.10%	11,115,000
1998 Public Improvement bonds	4.20% - 5.00%	16,870,000
1998A School bonds	4.35% - 5.10%	5,740,000
1999A School bonds	5.10% - 6.10%	7,500,000
2000A School bonds	5.10% - 5.60%	7,010,000
2001A School bonds	4.85% - 5.60%	6,175,000
2001B School bonds	3.10% - 5.35%	1,497,935
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%	5,010,000
2002B School bonds	4.10% - 4.35%	4,615,000
2003 School Refunding bonds	2.50% - 5.25%	81,515,000
2003A School bonds	4.10% - 5.35%	2,195,000
2003A Public Improvement bonds	2.00% - 4.20%	11,685,000
2004A Public Improvement Refunding bonds	5.00%	62,920,000
2004 Lease Revenue bond with general obligation pledge	4.39%	4,885,000
2005A Public Improvement bonds	3.00% - 4.75%	13,815,000
2005A School bonds	3.10% - 5.10%	19,275,000
		363,966,570
Add unamortized bond premiums		17,969,704
Less deferred refunding costs		(13,835,171)
Total general obligation bonds, governmental activities		\$ 368,101,103
Governmental activities - literary loans		
School literary loans, collateralized by certain school buildings	3.00%	\$ 5,726,848
Business-type activities		
Public Utilities - General Obligation bonds		
1993 Public Improvement Refunding bonds	5.13% - 5.50%	\$ 3,691,558
1995A Water and Sewer bonds	5.00% - 7.00%	24,700,000
2001 Water and Sewer Refunding bonds	3.38% - 4.25%	6,105,000
2003B Water and Sewer bonds	2.00% - 5.00%	53,515,000
2003C Water and Sewer Refunding bonds	2.00% - 3.50%	7,980,000
2004B Water and Sewer Refunding bonds	2.00% - 5.00%	32,530,000
2005B Water and Sewer Refunding bonds	3.00% - 4.00%	6,830,000
		135,351,558
Add unamortized bond premiums		6,376,377
Less unamortized bond discount		(36,607)
Less deferred refunding costs		(3,799,559)
Total Public Utilities bonds		\$ 137,891,769
Chesapeake Expressway - Revenue bonds:		
1999A Toll Road Revenue bonds	5.63%	\$ 21,630,000
Less unamortized bond discount		(251,531)
Total Chesapeake Expressway bonds		\$ 21,378,469

Schedule K, Continued

Callable	Noncallable	Call Premium
-	17,148,442	-
5,275,000	-	.25%-2.00%
-	4,370,193	-
11,000,000	-	.00%-2.00%
-	3,500,000	-
5,355,000	1,785,000	.00%-3.00%
7,695,000	3,420,000	.00%-3.00%
13,090,000	3,780,000	.00%-2.00%
4,100,000	1,640,000	.00%-2.00%
5,000,000	2,500,000	.00%-2.00%
5,060,000	1,950,000	.00%-2.00%
4,270,000	1,905,000	.00%-2.00%
-	1,497,935	-
1,865,000	395,000	.00 %
18,410,000	33,040,000	.00 %
3,350,000	1,660,000	.00%-1.00%
-	4,615,000	-
24,425,000	57,090,000	.00 %
1,520,000	675,000	.00%-1.00%
7,475,000	4,210,000	.00 %
9,515,000	53,405,000	.00%-1.00%
4,540,000	345,000	.00%-2.00%
7,620,000	6,195,000	.00%
11,980,000	7,295,000	.00% - 1.00%
151,545,000	212,421,570	
<hr/>		
-	5,726,848	-
<hr/>		
-	3,691,558	-
23,100,000	1,600,000	.00%-2.00%
-	6,105,000	-
44,025,000	9,490,000	.00 %
2,460,000	5,520,000	.00 %
19,130,000	13,400,000	.00%-1.00%
2,680,000	4,150,000	.00%
91,395,000	43,956,558	
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20,405,000	1,225,000	.00% - 1.00%
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(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule K, Continued

Notes to Basic Financial Statements
June 30, 2005

(6) Continued

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

Year ending June 30:	Governmental Activities						Business-Type Activities			
	Bonds		Literary loans		Public Utilities - Bonds		Chesapeake Expressway - Bonds		Interest	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 25,634,135	17,677,131	549,493	171,805	4,917,371	6,097,641	-	-	1,216,688	1,216,688
2007	27,814,763	16,593,220	549,493	155,321	4,960,573	5,920,427	-	-	1,216,688	1,216,688
2008	28,261,076	15,178,388	549,493	138,836	4,718,897	5,772,804	385,000	385,000	1,205,859	1,205,859
2009	30,507,112	13,753,167	549,493	122,351	4,819,154	5,610,699	410,000	410,000	1,183,500	1,183,500
2010	29,683,360	12,257,271	549,493	105,866	4,595,563	5,414,012	430,000	430,000	1,159,875	1,159,875
2011-2015	154,727,532	38,530,360	1,981,702	305,976	24,410,000	24,103,763	2,545,000	2,545,000	5,396,484	5,396,484
2016-2020	48,096,681	9,695,714	997,681	89,791	27,270,000	18,381,406	3,350,000	3,350,000	4,572,563	4,572,563
2021-2025	17,761,911	2,212,117	-	-	31,560,000	11,341,075	4,400,000	4,400,000	3,489,469	3,489,469
2026-2030	1,480,000	32,190	-	-	18,585,000	4,542,000	5,795,000	5,795,000	2,064,234	2,064,234
2031-2033	-	-	-	-	9,515,000	966,750	4,315,000	4,315,000	373,078	373,078
	\$ 363,966,570	125,929,558	5,726,848	1,089,946	135,351,558	88,150,578	21,630,000	21,630,000	21,878,438	21,878,438

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
 June 30, 2005

(6) Continued

(d) In January 2005, the City issued \$13,815,000 of general obligation public improvement bonds with a true interest cost of 4.05% and a premium of \$394,743. Of this premium, \$260,099 was recorded in the Capital Projects Fund with the remaining being recorded in the Debt Service Fund. The bonds were issued to fund various public improvements including, but not limited to, a new community center, economic development initiatives and two park projects.

(e) In January 2005, the City issued \$6,920,000 of general obligation water and sewer refunding bonds with a true interest cost of 3.77%. The bonds were issued to refund all of the remaining outstanding 1994 Water and Sewer revenue refunding bonds with interest rates ranging from 4.85% to 5.15%. The net proceeds of \$6,823,819 (after an original issue discount of \$24,516 and payment of \$71,665 for underwriting fees and other issuance costs), along with \$256,965 held by the City to pay interest on the refunded bonds and \$683,908 released from the Debt Service Reserve Fund, 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 1994 bonds. An additional \$17,366 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 and from the Statement of Net Assets of the Public Utilities Fund. On June 30, 2005, none of the defeased bonds remain outstanding. The reacquisition price exceeded the net carrying amount of the old debt by \$407,727 (this amount is net of \$1,871 returned to the City after the call date of the bonds). 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 current refunding resulted in an economic gain of \$423,088 and a net savings of \$536,208 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 call dates are as follows:

	Maturity Date	Principal Amount Refunded	Call Date
1994 Water and Sewer Revenue Refunding Bonds	2005-2021	\$ 7,490,000	2/27/2005

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(6) Continued

- (f) In May 2005, the City sold \$19,275,000 of general obligation school bonds to the Virginia Public School Authority at a true interest cost of 4.26% with a premium of \$1,147,404. The bonds were issued to partially fund the construction of a new high school.
- (g) In December 2003, the CSB of Chesapeake, Inc., a blended component unit reported as a special revenue fund of the City, issued a \$4,940,000 lease revenue bond with a fixed interest rate of 4.39%. The City has pledged its full faith and credit for this obligation, which was incurred to construct the Community Services Board building. The holding bank may require prepayment of this bond on January 1, 2014, with at least 90 days written notice to the City. Therefore, although the bond has a maturity of July 1, 2030, the remaining principal is reflected as being due in 2014. At June 30, 2005, \$4,885,000 was outstanding.
- (h) 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 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. 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, 2005, \$35,000,000 of the defeased bonds remains outstanding.
- (i) 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. 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 1995 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 and from the Statement of Net Assets of the Public Utilities Fund. On June 30, 2005, \$33,300,000 of the defeased bonds remains outstanding.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(6) Continued

- (j) 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, 2005, none of the defeased bonds remain outstanding.
- (k) 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, 2005, none of the defeased bonds remain outstanding.
- (l) 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, 2005, \$5,700,000 of the defeased bonds remain outstanding.
- (m) 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, 2005

(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, 2005 amounted to \$71,958,461. Revenues generated from the project were used to make a \$1,191,510 repayment of Toll Facilities Revolving Account (TFRA) payment to VDOT. No payment schedule has been established.
- (n) 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 \$950,000 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, 2005

(6) Continued

The following table summarizes the City’s debt service requirements for the SPA as of June 30, 2005.

Fiscal year ending June 30:	
2006	\$ 2,328,620
2007	2,328,870
2008	2,326,620
2009	2,326,870
2010	2,329,370
2011-2015	11,642,330
2016-2020	11,649,000
2021-2022	4,652,300
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Total payments	39,583,980
Less amounts representing interest	13,713,980
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	\$ 25,870,000

- (o) In November 1996, the City financed a new Chesapeake Circuit Court building through financing arrangements with the EDA, a component unit of the City. Under the arrangement, the EDA issued \$24,460,000 in public facility lease revenue bonds to finance the construction, and the City leases the building from the EDA. The scheduled payments that the City makes to the trustee are used to pay debt service on the bonds. The 20-year schedule of rent payments due under this agreement is included in the City’s capital leases to component unit. At June 30, 2005, \$17,570,000 was outstanding.
- (p) In June 1994, the City financed a 320-bed addition to the City jail through a financing arrangement with the EDA. Under the arrangement, the EDA issued \$30,205,000 tax-exempt lease revenue bonds to finance the expansion, and the City leases the jail from the EDA. 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, 2005, the amount owed by the City under this capital lease obligation was \$16,765,000. In March 2005, the EDA issued \$16,765,000 of public facility lease revenue bonds to refund all of the remaining outstanding 1994 bonds of which all are outstanding at June 30, 2005. This refunding resulted in a net savings of \$1,264,059 in future debt service payments by the City to the EDA and therefore, the schedule of rent payments for the City was amended. At June 30, 2005, none of the EDA’s defeased bonds remain outstanding.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(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 and March 2005, portions of the debt related to the City jail project were refunded. 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 \$9,211,286 have been received by the City as of June 30, 2005. The current year reimbursement was \$833,303.

(q) 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 year:		
2006		2,173,300
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Total payments		2,173,300
Less amounts representing interest		113,300
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		\$ 2,060,000
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The certificates of participation bear interest at rates from 5.40% 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 \$2,379,344 is maintained by the City with a trustee.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(6) Continued

(r) Notes payable at June 30, 2005 consisted of the following:

Governmental activities	\$ 48,578
Business-type activities - Public Utilities Fund	575,000
Total notes payable	\$ 623,578

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 \$48,578 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, 2005 is \$575,000.

The following table summarizes the City's payment requirements for the notes payable as of June 30, 2005:

	Governmental activities	Business-type Activities - Public Utilities Fund
Fiscal years:		
2006	\$ 50,515	115,000
2007	-	115,000
2008	-	115,000
2009	-	115,000
2010	-	115,000
Total payments	50,515	575,000
Less amounts representing interest	1,937	-
	\$ 48,578	575,000

(s) 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, 2005 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, 2005

(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, 2005 in the amount of \$37,124.

- (t) 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.

- (u) 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, 2004 was \$24,415,000. 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 \$79,517,381 as of June 30, 2005.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(6) Continued

(v) 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 6.41% 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 3.53% effective June 30, 2005. The following is a schedule of projected future loan payments:

Fiscal year ending June 30:	
2006	\$ 377,612
2007	380,235
2008	381,456
2009	381,145
2010	379,179
2011-2012	776,308
<hr/>	
Total payments	2,675,935
Less amounts representing interest	420,935
<hr/>	
	\$ 2,255,000
<hr/>	

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(6) Continued

(w) Computation of Legal Debt Margin

Assessed valuation - real estate		\$ 14,713,238,641
<hr/>		
Legal debt limit - 10% of assessed valuation		\$ 1,471,323,864
Amount of debt applicable to legal debt limit:		
General bonded debt	\$ 526,674,976	
Plus:		
Notes payable	623,578	
Less:		
Self-supporting debt not chargeable to debt limit	84,965,000	
Amounts available for debt service	22,935,812	
		<hr/>
		419,397,742
<hr/>		
Legal debt margin available		1,051,926,122
<hr/>		
Percent of:		
Legal debt margin outstanding		28.5%
Legal debt margin available		71.5%
		<hr/>
		100.0%
<hr/>		
Summary of assessed valuation:		
Public service real estate	\$ 878,022,470	
Other city real estate	13,835,216,171	
		<hr/>
		\$ 14,713,238,641
<hr/>		

(x) In November 1994, \$76,900,000 of Road Improvement Bonds were authorized by referendum. As of June 30, 2005, the remaining \$13,149,800 of these unissued bonds have expired.

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

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
 June 30, 2005

(6) Continued

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

On November 20, 1996, the EDA issued \$24,460,000 of Public Facility Lease Revenue Bonds to finance construction of the City of Chesapeake Court House Project. The bonds are being repaid through City lease payments on the facility. The remaining interest rates on the bonds vary from 5.00% to 6.25%. At June 30, 2005, \$17,570,000 remains outstanding, \$14,230,000 of which is callable.

On June 1, 1994, the EDA issued \$30,205,000 of Lease Revenue Bonds to finance construction of the City of Chesapeake Jail Project. The bonds are being repaid through City lease payments on the facility. In March 2005, the EDA issued \$16,765,000 of public facility lease revenue refunding bonds, of which all are outstanding as of June 30, 2005, to refund the remaining outstanding 1994 Public Facility Lease Revenue Bonds of \$18,050,000. 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 1994 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 for the Other Discretely Presented Component Units. At June 30, 2005, none of the defeased bonds remain outstanding.

The amounts refunded and call dates are as follows:

Bond	Maturity Date	Principal Amount Refunded	Call Date
1994 Public Facility Lease Revenue Bonds (Jail)	2006-20114	\$ 18,050,000	6/1/2005

In October 1998, the City entered into a support agreement with the Chesapeake Airport Authority, to provide a non-binding obligation of the City to consider certain appropriations to the Airport Authority in conjunction with the Airport Authority's issuance of \$2,500,000 Airport Revenue Bonds. The bonds, issued in January 1999, funded the acquisition, construction, and equipping of airplane hangers and related facilities at the Chesapeake Municipal Airport. The City's support extends only to the debt service reserve account for these bonds, as required under the master indenture, to appropriate sufficient funds if a deficit exists in the debt service reserve account. At June 30, 2005, \$2,065,000 remains outstanding, \$1,650,000 of which is callable.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(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 began on June 15, 2005 and will continue each year until the loan is repaid in full, which would be no later than December 15, 2014. A reservation of fund balance has been made in the Debt Service Fund for the balance outstanding at June 30, 2005 of \$370,500.

The General Fund also budgeted payments of \$296,164 and made payments of \$296,163 on behalf of the Airport Authority during fiscal year 2005. 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 \$11,384 on behalf of the Port Authority during fiscal year 2005. The City does not intend to collect these payments from the Port Authority.

Component Unit – Economic Development Authority of the City of Chesapeake

On May 13, 1986, the City Council approved an advance to the EDA in a maximum amount of \$1,500,000. At June 30, 2005, \$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 \$405,031 on behalf of the Authority during fiscal year 2005. The City does not intend to collect these payments from the EDA.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(7) Continued

Advances from the primary government to its component units as reported on the Statement of Net Assets as of June 30, 2005 is summarized as follows:

Advances to Airport Authority	\$	602,500
Advance to Port Authority		944,407
Advance to EDA		1,319,095
Total advances to component units		2,866,002
Less allowance for uncollectible amounts		(2,263,502)
Net advances to component units	\$	602,500

(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, 2005 are as follows:

Due To Other Funds	Due From Other Funds	
	Capital Projects Fund	Nonmajor Governmental Funds
General Fund	\$ -	539,225
Debt Service Fund	296,608	-
Total interfund balances	\$ 296,608	539,225

These interfund balances are a result of both operating transfers and temporary capital project funding. The amount due from the nonmajor governmental funds of \$539,225 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 \$580,299.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule K, Continued

Notes to Basic Financial Statements
June 30, 2005

(8) Continued

Interfund transfers for the year ended June 30, 2005 are as follows:

	Transfers From Other Funds									
	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Public Utilities Fund	Chesapeake Expressway Fund	Nonmajor Enterprise Funds	Internal Service Funds	Total	
Transfers To Other Funds										
General Fund	\$ -	125,769	-	149,811	-	430,790	31,422	174,129	911,921	
Debt Service Fund	40,418,366	-	1,613,668	2,080,452	-	-	-	-	44,112,486	
Capital Projects Fund	4,067,022	105,065	-	899,757	-	-	-	-	5,071,844	
Nonmajor governmental funds	17,902,763	-	99,389	282,244	-	-	-	-	18,284,396	
Public Utilities Fund	-	-	-	13,075	-	-	-	-	13,075	
Internal Service Funds	1,159,841	-	-	-	400,000	-	-	-	1,559,841	
Total	\$ 63,547,992	230,834	1,713,057	3,425,339	400,000	430,790	31,422	174,129	69,953,563	

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(8) Continued

Individual fund interfund transfers for the primary government were made for budgeted operating, debt service, and capital purposes. In the year ended June 30, 2005, \$913,530 was transferred from the Capital Projects Fund to the Debt Service Fund in connection with the payment made to the escrow agent for the EDA Public Facilities Lease Revenue Refunding Bonds (Jail Project). This represents excess debt service reserve funds resulting from the refunding which were applied toward the defeasance of the bonds at the time of closing.

(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, 2005, the City's capital assets from governmental activities include \$54,665,000 of buildings leased from component units and leased equipment of \$22,850,665. Current year amortization expense for leased assets is \$3,051,327 and is included in depreciation expense. Accumulated amortization expense for these assets is \$13,457,706.

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, 2005 are as follows:

	Capital	Operating
Fiscal years:		
2006	\$ 8,842,800	\$ 102,473
2007	7,762,655	102,134
2008	7,263,169	106,219
2009	6,171,556	45,723
2010	4,934,412	-
2011-2015	19,051,363	-
2016-2018	4,069,512	-
Total future minimum lease payments	58,095,467	\$ 356,549
Less amounts representing interest	11,647,577	
Present value of minimum capital lease payments	\$ 46,447,890	

Total governmental operating lease payments for the year ended June 30, 2005 were \$443,118.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(9) Continued

At June 30, 2005, the Public Schools fixed assets include \$11,966,858 of equipment financed under capital leases. Current year amortization expense for leased assets is \$996,494. Accumulated amortization expense for these assets is \$2,798,311. The future minimum capital lease payments and the present value of minimum capital lease payments for the Public Schools as of June 30, 2005 are as follows:

Fiscal years:		
2006	\$	2,464,393
2007		2,163,379
2008		1,673,996
2009		842,322
<hr/>		
Total future minimum lease payments		7,144,090
Less amounts representing interest		363,132
<hr/>		
Present value of minimum capital lease payments	\$	6,780,958
<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, 2005

(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, 2005 were 15.25% and 12.75%, respectively, of annual covered payrolls.

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

	Annual Required Contributions	Actual Amount Contributed in Dollars	Actual Amount Contributed in Percent
2005	\$ 20,185,758	20,185,758	100%
2004	15,154,834	15,154,834	100%
2003	14,336,236	14,336,236	100%

Annual Pension Cost

For the year ended June 30, 2005, the City's and Schools' annual pension cost and net pension obligation were as follows:

	City	Schools
Annual required contribution	\$ 18,083,080	1,746,267
Interest on net pension obligation	128,082	7,644
Adjustment to annual required contribution	(139,431)	(6,511)
Annual pension cost	18,071,731	1,747,400
Less contributions made	18,083,080	1,746,267
Decrease in net pension obligation	(11,349)	1,133
Net pension obligation at June 30, 2004	1,601,029	95,560
Net pension obligation at June 30, 2005	\$ 1,589,680	96,693

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(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, 2005	\$ 18,071,731	100.1%	\$ 1,589,680	\$ 1,747,400	100.0%	\$ 96,693
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

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 \$820,348 were made by the Public Schools during the year, resulting in a remaining liability of \$1,244,212 reflected in the component unit Public Schools' long-term liability as of June 30, 2005.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule K, Continued

Notes to Basic Financial Statements
June 30, 2005

(11) Reserved Fund Balances

Primary Government

The reserved fund balances in the fund financial statements at June 30, 2005 were as follows:

	General	Debt Service	Capital Projects	Other Nonmajor Governmental	Total
RESERVED FOR:					
Expendable:					
Advances to component units	\$ 232,000	370,500	-	-	602,500
Reserve for debt service	-	2,379,344	-	-	2,379,344
Law library	38,495	-	-	-	38,495
Oak Grove Connector construction	721,934	-	-	-	721,934
Radio system	2,228,497	-	-	-	2,228,497
City future capital projects	975,000	-	-	-	975,000
Schools future capital projects	6,331,163	-	-	-	6,331,163
City Courts construction	-	-	4,940,913	-	4,940,913
City Jail construction	-	-	2,355,938	-	2,355,938
AIW Bridge	-	-	11,163	-	11,163
Drainage projects	-	-	2,782,112	-	2,782,112
Recreational facilities	-	-	546,574	-	546,574
Arbitrage rebate	-	126,757	-	-	126,757
Encumbrances	1,161,977	-	65,788,082	464,443	67,414,502
Nonexpendable:					
Nonexpendable fund corpus	-	-	-	12,795	12,795
	\$ 11,689,066	2,876,601	76,424,782	477,238	91,467,687

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(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, 2005.

(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, 2005, 241 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, 2005 were \$1,156,503.

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, 2005, 88 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, 2005 were \$195,129.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

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

The City Council adopted a five-year capital improvements program on May 10, 2005, the total estimated cost of which amounted to \$246,158,869 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:

Open space ordinance fees	\$ 114,900
Redirected funds from completed projects	962,497
Capital Projects Fund - fund balance	1,391,383
General Fund - reserve for City capital projects	1,575,000
Other local sources	1,750,000
General Fund - fund balance	1,839,000
Tax Increment Financing Fund	2,807,200
General Fund - reserve for School capital projects	4,324,625
Public Utilities	5,456,000
Stormwater management fees	6,000,000
VDOT reimbursement	7,500,000
Funds on hand previously appropriated	48,313,935
Anticipated federal and state funds	81,116,334
VPSA bonds and borrowing authority	83,007,995
	\$ 246,158,869

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, 2005, the City has incurred cumulative costs of \$24,814,742 related to the design and construction of the pipeline, with \$9,648 relating to fiscal year 2005. These costs are capitalized in the Public Utilities Fund.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(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). On July 1, 2004, SPSA made the final principal payment on this obligation, thus retiring the City's obligation in full.

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

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 has been only one significant change in insurance coverage from the prior year in that the maximum limit of workers' compensation was reduced to \$25 million per claim from the prior year Statutory per claim limit. There 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.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(15) Continued

The claims liability of \$20,996,448 reported in the Self-Insurance Fund at June 30, 2005 is based on the requirements of the GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. It requires that a liability for claims should be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The claims liability includes an amount, using an annual discount rate of 4% to 4.5%, for claims that have been incurred but not reported (IBNR).

Changes in the Self-Insurance Fund's liability amount during the fiscal years ended June 30, 2005 and 2004 were as follows:

	Beginning Balance	Claims and Changes in Estimates	Claims Payments	Ending Balance
2004-2005	\$ 19,347,001	8,785,881	7,136,434	20,996,448
2003-2004	\$ 16,631,942	8,593,001	5,877,942	19,347,001

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, 2005 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, 2005 is \$1,037,323.

Changes in the Public Schools' liability for self-insurance losses amount during the fiscal years ended June 30, 2005 and 2004 were as follows:

	Beginning Balance	Claims and Changes in Estimates	Claims Payments	Ending Balance
2004-2005	\$ 2,038,756	521,455	1,522,888	1,037,323
2003-2004	\$ 644,562	4,761,105	3,366,911	2,038,756

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(15) Continued

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.

Since early 2001, the City has been involved in litigation involving 213 plaintiffs filed in the Chesapeake Circuit Court. The plaintiffs allegedly suffered miscarriages from 1983 through 2000, and attributed 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 claimed \$5 million compensatory damages per miscarriage (some had multiple miscarriages) plus an additional sum for punitive damages. In the aggregate, the City had claims pending against it in litigation totaling \$1,545,000,000 in compensatory damages and \$213,000,000 in punitive damages. These cases were consolidated for pretrial motions and discovery under the Virginia Multiple Claimant Litigation Act.

These lawsuits all involved 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. The City denied 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. Several hearings on these various motions to dismiss were held.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(15) Continued

As a result of these hearings, the judge ruled that CERCLA (Superfund laws) do not apply to extend the statute of limitations, a ruling which was favorable for the City. As a result of this ruling, only the four fraud counts remained. The judge also 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 original plaintiff voluntarily nonsuited her case in June of 2002. Plaintiffs' counsel identified another case for trial, Helen Cunningham v. City of Chesapeake, and all of the judge's rulings were applied to this new case.

The City appealed to the Virginia Supreme Court the Chesapeake Circuit Court's denial of the City's Special Plea of Sovereign Immunity and Special Plea of Statute of Limitations. The plaintiff appealed the trial court's decision that CERCLA does not apply in the case to extend the statute of limitations. On November 5, 2004, the Virginia Supreme Court found that sovereign immunity applied to bar all of the plaintiff's claims in Helen Cunningham v. City of Chesapeake, and the Court entered final judgment for the City. Based upon the Virginia Supreme Court's opinion, the remaining 212 plaintiffs nonsuited their cases on May 25, 2005. Under Virginia law, the nonsuiting plaintiffs may refile their cases within 6 months of taking their nonsuits. Because of the strength of the Virginia Supreme Court's decision in the *Cunningham* case, it is highly unlikely that any of the nonsuiting plaintiffs will refile; however, to ensure that they cannot refile, the City has filed a writ of appeal to appeal the Chesapeake Circuit Court's decision to allow the nonsuits and to deny the City's motion to dismiss the remaining cases with prejudice.

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.

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Notes to Basic Financial Statements
June 30, 2005

(15) Continued

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 Deficits

The Self Insurance Fund, an Internal Service Fund, had a net asset deficit of \$4,274,697 at June 30, 2005. This deficit will be funded by future internal billings to other funds of the City.

The Chesapeake Expressway Fund, an Enterprise Fund, had a net asset deficit of \$1,041,357 at June 30, 2005. This deficit will be funded by future toll revenues.

(17) Budgetary Expenditures in Excess of Appropriations

The expenditures of the Virginia Public Assistance Fund, a Special Revenue Fund, exceeded appropriations by \$241,027. The expenditures over appropriations were funded by federal revenues.

The expenditures of the Juvenile Detention Home Fund, a Special Revenue Fund, exceeded appropriations by \$11,488. The expenditures over appropriations were funded by food values from the United States Department of Agriculture.

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, 2005

	General Fund			
	Original Budget	Revised Budget	Actual	Variance Positive (Negative)
REVENUES				
General property taxes	\$ 219,075,000	219,075,000	224,529,435	5,454,435
Other local taxes	98,767,500	98,520,320	106,528,044	8,007,724
Licenses, permits and fees	2,497,100	2,497,100	2,900,145	403,045
Intergovernmental revenues:				
Commonwealth of Virginia	70,619,981	72,625,932	76,487,792	3,861,860
Federal government	60,000	111,130	1,692,073	1,580,943
Recovered costs	106,729	266,200	867,472	601,272
Investment income	628,365	638,695	1,574,787	936,092
Revenues from use of property	250,255	253,620	286,590	32,970
Charges for services	8,503,723	8,523,291	7,711,661	(811,630)
Fines and forfeitures	2,517,430	2,517,430	2,929,501	412,071
Miscellaneous local revenues	77,929	89,929	627,026	537,097
Total revenues	403,104,012	405,118,647	426,134,526	21,015,879
EXPENDITURES				
Current:				
General government	94,841,955	87,043,968	85,020,468	2,023,500
Public safety	62,645,791	66,616,476	66,119,196	497,280
Public works	40,638,083	42,603,955	41,022,326	1,581,629
Parks	3,751,450	4,019,518	3,665,554	353,964
Debt service	2,331,120	2,331,120	2,333,598	(2,478)
Total expenditures	204,208,399	202,615,037	198,161,142	4,453,895
Excess of revenues over expenditures	198,895,613	202,503,610	227,973,384	25,469,774
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	130,000	247,491	911,921	664,430
Payments from component units	-	-	372,601	372,601
Payments from component unit - cash reversion	-	-	791,551	791,551
Transfers to other funds	(55,345,409)	(63,117,202)	(63,547,992)	(430,790)
Payments to component units	(136,961,818)	(137,190,122)	(137,190,122)	-
Total other financing sources (uses)	(192,177,227)	(200,059,833)	(198,662,041)	1,397,792
Excess of revenues and other financing sources over expenditures and other financing uses	6,718,386	2,443,777	29,311,343	26,867,566
Fund balances - beginning	71,490,314	71,490,314	71,490,314	-
Fund balances - ending	\$ 78,208,700	73,934,091	100,801,657	26,867,566

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, 2005

City Employees						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2004	\$ 357,806,464	419,050,008	61,243,544	85.39%	\$ 116,960,732	52.36%
June 30, 2003	348,678,360	389,423,931	40,745,571	89.54%	113,636,361	35.86%
June 30, 2002	340,608,133	365,260,331	24,652,198	93.25%	114,813,210	21.47%

Schools' Non-Professional Employees						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2004	\$ 40,517,147	48,237,485	7,720,338	84.00%	\$ 16,322,205	47.30%
June 30, 2003	36,855,331	44,286,176	7,430,845	83.22%	15,293,398	48.59%
June 30, 2002	39,362,090	40,119,837	757,747	98.11%	14,038,774	5.40%

CITY OF CHESAPEAKE, VIRGINIA

Note to Required Supplementary Information
June 30, 2005

(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, 2005

(1) Continued

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

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

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

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

Unaudited – see accompanying auditors' report.

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Supplementary Information - Combining and Individual Fund Schedules



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General Fund

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

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



General Fund
 Schedule of Revenues and Other Financing Sources -
 Budget and Actual
 Year Ended June 30, 2005

	Revised Budget	Actual	Variance Positive (Negative)
REVENUES			
General property taxes			
Current taxes on real property	\$ 170,800,000	171,177,712	377,712
Current taxes on public service corporations	10,775,000	10,966,326	191,326
Current taxes on personal property	25,800,000	27,630,892	1,830,892
Delinquent taxes on real property	2,500,000	3,380,417	880,417
Delinquent taxes on personal property	7,000,000	8,744,434	1,744,434
Penalties, interest, and advertising	2,200,000	2,629,654	429,654
Total general property taxes	219,075,000	224,529,435	5,454,435
Other local taxes			
Local sales and use taxes	30,100,000	31,989,281	1,889,281
Consumer utility taxes	9,956,000	9,365,746	(590,254)
Consumer telephone taxes	6,500,000	7,576,247	1,076,247
Business license taxes	18,781,000	21,461,924	2,680,924
Local utility consumption tax	780,000	785,997	5,997
Franchise license taxes	1,861,000	1,959,448	98,448
Motor vehicle license	4,317,300	4,465,961	148,661
Bank stock taxes	740,000	824,730	84,730
Taxes on recordation and wills	2,475,000	4,302,365	1,827,365
Tobacco taxes	5,100,000	4,827,640	(272,360)
Hotel and motel room taxes	2,545,700	2,486,735	(58,965)
Lodging flat tax	336,320	336,320	-
Restaurant food taxes	14,100,000	15,189,068	1,089,068
Admission taxes	500,000	543,054	43,054
Short-term rental taxes	284,000	274,783	(9,217)
Pari-mutuel wagering pool tax	144,000	138,745	(5,255)
Total other local taxes	98,520,320	106,528,044	8,007,724
Revenues from local sources			
Licenses, permits, and fees:			
Bicycle licenses	100	40	(60)
Building structure and equipment permits	936,000	1,241,018	305,018
Precious metals and gems permits	2,200	2,200	-
Highway and driveway permits	62,000	31,723	(30,277)
Transfer fees	5,770	9,752	3,982
Zoning inspection fees	85,280	22,484	(62,796)
Building inspection fees	84,000	108,520	24,520
Electrical inspection fees	317,700	370,575	52,875
Elevator inspection fees	45,000	22,400	(22,600)
Plumbing inspection fees	204,000	256,366	52,366
Mechanical permits	297,000	319,933	22,933
Subdivision review fees	237,050	265,689	28,639
Solicitors permits	100	920	820
Taxi operators licenses	500	393	(107)
Inspection fees - gas appliances	59,000	84,362	25,362
Animal license and fees	145,900	131,420	(14,480)
Rodent-free certification fee	-	4,260	4,260
Rental inspection fees	15,500	27,090	11,590
Telecommunications right of way	-	1,000	1,000
Total licenses, permits, and fees	2,497,100	2,900,145	403,045
Fines and forfeitures	2,517,430	2,929,501	412,071
Investment income	638,695	1,574,787	936,092
Revenues from use of property:			
Rental of general property	165,320	150,222	(15,098)
Rental of recreation facilities	77,450	121,053	43,603
Library rental revenue	10,850	15,315	4,465
Total revenues from use of property	253,620	286,590	32,970

(Continued)

General Fund
 Schedule of Revenues and Other Financing Sources -
 Budget and Actual
 Year Ended June 30, 2005

	Revised Budget	Actual	Variance Positive (Negative)
Revenues from local sources, continued:			
Charges for services:			
Special court costs	\$ 76,370	89,230	12,860
Law library fees	98,000	87,354	(10,646)
Accident report fees	26,000	31,960	5,960
Municipal court fees	36,430	35,224	(1,206)
Civil penalties	-	9,379	9,379
Non-support fees	31,840	28,578	(3,262)
Commonwealth's Attorney fees	6,600	10,752	4,152
Police escort fees	3,000	4,950	1,950
Sale of service - police	147,368	198,419	51,051
Fire report fees	-	106	106
Sheriff fees	22,861	22,861	-
Inmate medical fees	20,602	103,919	83,317
Sale of service - jail	1,400,000	1,033,822	(366,178)
Sale of service - jail inmates	221,318	210,279	(11,039)
Inmate phone system - jail	200,000	101,808	(98,192)
Sale of service - sheriff	345,100	587,038	241,938
Sale of service - public works	176,600	304,484	127,884
Engineering and administrative fees	959,150	180,038	(779,112)
Recreation franchise fees	88,832	82,372	(6,460)
Vending machine commissions	10,200	6,362	(3,838)
Telephone commissions	220	-	(220)
Gallery fees & dues	-	1,105	1,105
Library fines and fees	319,500	365,247	45,747
Lot processing fees	108,000	188,825	80,825
Apartment processing fees	62,000	91,279	29,279
Sale of service - planning	3,600	3,045	(555)
Sale of service - public information	2,000	3,672	1,672
Sale of publications	5,000	7,991	2,991
Returned check fees	14,200	24,874	10,674
Custodian service	105,160	95,366	(9,794)
Wage assignment fees	9,000	9,416	416
Sale of service - assessor	5,640	12,252	6,612
Adult Clinic fees	300	-	(300)
Emergency medical service fees	3,093,970	2,846,200	(247,770)
Administration collected fees	300,000	319,935	19,935
Rent of showmobile	3,000	6,080	3,080
Wetland Board Civil fees	-	2,600	2,600
Passport application fee	-	6,085	6,085
Sale of service - Commissioner of Revenue	2,300	2,914	614
Subdivision inspection fees	346,130	484,193	138,063
Sale of service - capital improvement budget support	272,000	105,647	(166,353)
Sale of service - sponsorship	1,000	6,000	5,000
Total charges for services	8,523,291	7,711,661	(811,630)
Miscellaneous local revenues:			
Payments in lieu of taxes from other agencies	3,000	502	(2,498)
Sale of personal property	-	3,010	3,010
School proffers	-	520,057	520,057
Sale of real property	-	2,429	2,429
Sale of ARC - public works	42,250	59,215	16,965
Public Works claims reimbursement	20,400	12,178	(8,222)
Local grant - TCI capital equipment	12,000	12,000	-
Primary fees	-	4,612	4,612
Sale of junk and salvage	8,000	7,625	(375)
Other revenue	4,279	5,398	1,119
Total miscellaneous local revenues	89,929	627,026	537,097

(Continued)

General Fund
 Schedule of Revenues and Other Financing Sources -
 Budget and Actual
 Year Ended June 30, 2005

	Revised Budget	Actual	Variance Positive (Negative)
Revenues from local sources, continued:			
Recovered costs:			
Insurance claims and collections	\$ -	30	30
Other recoveries and rebates	200,000	796,044	596,044
Virginia Juvenile Community Crime Control	66,000	70,451	4,451
Recoveries - jury	200	947	747
Total recovered costs	266,200	867,472	601,272
Total revenues from local sources	332,381,585	347,954,661	15,573,076
Revenues from the Commonwealth			
Noncategorical aid:			
ABC profits	116,769	116,769	-
Wine taxes	122,397	122,397	-
Motor vehicle carrier taxes	120,640	133,344	12,704
Mobile home titling taxes	25,000	24,757	(243)
Police	6,383,000	6,665,480	282,480
Daily rental taxes - auto	615,000	742,427	127,427
Drug enforcement state assets	184,877	143,245	(41,632)
Deed taxes	458,953	1,036,363	577,410
Personal Property Tax Relief	20,500,000	21,299,117	799,117
Delinquent Personal Property Tax Relief	6,000,000	7,130,361	1,130,361
Total noncategorical aid	34,526,636	37,414,260	2,887,624
Categorical aid:			
Shared expenses:			
Commonwealth's Attorney	963,365	974,548	11,183
Sheriff	7,739,266	7,671,600	(67,666)
Commissioner of the Revenue	343,325	343,858	533
Treasurer	401,623	408,993	7,370
Medical Examiner	1,669	-	(1,669)
Registrar/Electoral Board	124,705	138,168	13,463
Circuit court clerk	1,072,210	986,802	(85,408)
Agriculture	53,054	53,847	793
Jail project reimbursement - state	612,745	612,745	-
Total shared expenses	11,311,962	11,190,561	(121,401)
Other categorical aid:			
Local jail	1,904,723	2,174,460	269,737
Street and highway maintenance	22,809,780	22,809,843	63
Library	214,900	214,662	(238)
Health	84,317	21,458	(62,859)
Excess fees	770,216	1,376,713	606,497
Other state grants	-	21,575	21,575
Transportation improvement set-aside	1,003,398	1,133,742	130,344
Reimbursement for emergency expense	-	130,518	130,518
Total other categorical aid	26,787,334	27,882,971	1,095,637
Total categorical aid	38,099,296	39,073,532	974,236
Total revenues from the Commonwealth	72,625,932	76,487,792	3,861,860

General Fund
 Schedule of Revenues and Other Financing Sources -
 Budget and Actual
 Year Ended June 30, 2005

	Revised Budget	Actual	Variance Positive (Negative)
Revenues from the Federal Government			
Noncategorical aid - Refuge Revenue Sharing Act	\$ 60,000	51,317	(8,683)
Categorical aid:			
Other federal grants	-	1,073,977	1,073,977
Drug Enforcement Agency	51,130	89,597	38,467
Emergency reimbursement - federal	-	477,182	477,182
Total revenues from the Federal Government	111,130	1,692,073	1,580,943
Total revenues	405,118,647	426,134,526	21,015,879
OTHER FINANCING SOURCES			
Payments from component unit - cash reversion	-	791,551	791,551
Payments from component unit	-	372,601	372,601
Transfers from other funds	247,491	911,921	664,430
Total other financing sources	247,491	2,076,073	1,828,582
Total revenues and other financing sources	\$ 405,366,138	428,210,599	22,844,461

CITY OF CHESAPEAKE, VIRGINIA

Schedule M-2

General Fund
 Schedule of Expenditures, Encumbrances, and Other Financing Uses -
 Budget and Actual
 Year Ended June 30, 2005

	Appropriations	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay				
EXPENDITURES							
General government:							
Legislative Department - City Council	\$ 1,043,647	1,013,657	-	1,013,657	29,990	208	29,782
Executive Department:							
City Manager	1,420,448	1,258,008	-	1,258,008	162,440	85,057	77,383
Intergovernmental Affairs	414,454	406,660	-	406,660	7,794	-	7,794
Public Communications	1,248,674	1,234,788	-	1,234,788	13,886	11,039	2,847
Contingencies	872,122	-	-	-	872,122	-	872,122
Environmental emergencies	767,429	165,604	-	165,604	601,825	-	601,825
Department of Law - City Attorney	1,513,264	1,551,565	-	1,551,565	(38,301)	-	(38,301)
Department of Finance:							
Commissioner of Revenue	2,891,051	2,834,849	-	2,834,849	56,202	9,159	47,043
Real Estate Assessor	2,256,664	2,173,444	-	2,173,444	83,220	-	83,220
Board of Equalization	6,446	4,637	-	4,637	1,809	-	1,809
City Treasurer	3,252,222	3,056,514	99,141	3,155,655	96,567	3,890	92,677
Sale of city auto licenses	81,139	80,464	-	80,464	675	-	675
Director of Finance	2,939,468	2,785,998	-	2,785,998	153,470	34,226	119,244
Economic Development	1,382,161	1,388,999	-	1,388,999	(6,838)	16,059	(22,897)
Portlock Galleries	61,155	61,218	-	61,218	(63)	-	(63)
Budget Director	614,407	591,138	-	591,138	23,269	2,947	20,322
Audit Services	418,826	406,655	-	406,655	12,171	-	12,171
Independent auditors	102,200	86,989	-	86,989	15,211	-	15,211
Department of Human Resources:							
Human Resources	2,310,464	1,702,127	-	1,702,127	608,337	28,256	580,081
HIPAA	183,794	174,434	-	174,434	9,360	5,665	3,695
Judicial Department:							
Circuit Court	570,861	481,404	-	481,404	89,457	-	89,457
Magistrates office	15,092	10,999	-	10,999	4,093	-	4,093
General District Court	2,268,413	2,290,752	-	2,290,752	(22,339)	-	(22,339)
Juvenile and Domestic Relations Court	827,374	840,980	-	840,980	(13,606)	191	(13,797)
Court Services Unit	392,396	287,996	-	287,996	104,400	7,037	97,363
Commonwealth's Attorney	2,256,061	2,241,221	-	2,241,221	14,840	-	14,840
Circuit Court Clerk	1,742,775	1,767,102	-	1,767,102	(24,327)	24,688	(49,015)
Sheriff	26,206,034	27,321,736	139,525	27,461,261	(1,255,227)	47,444	(1,302,671)
Law Library	133,012	111,976	-	111,976	21,036	-	21,036
Chesapeake Volunteer Services	294,196	283,471	-	283,471	10,725	-	10,725
Virginia Juvenile Community Crime Control	66,382	70,452	-	70,452	(4,070)	-	(4,070)
Department of General Services:							
Purchasing	734,453	731,571	-	731,571	2,882	1,501	1,381
Buildings Maintenance	4,575,273	4,647,259	-	4,647,259	(71,986)	14,160	(86,146)
Facilities Management - buildings	544,279	424,292	-	424,292	119,987	-	119,987

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule M-2, Continued

General Fund
 Schedule of Expenditures, Encumbrances, and Other Financing Uses -
 Budget and Actual
 Year Ended June 30, 2005

	Expenditures			Total	Unexpended Balance	Encumbrances	Unencumbered Balance
	Appropriations	Operating	Capital Outlay				
General government, continued:							
Department of Public Health:							
Adult clinics	670,229	593,302	-	593,302	76,927	72,826	4,101
General clinics	1,393,207	1,310,402	-	1,310,402	82,805	15,000	67,805
OSHA services	350,087	350,817	-	350,817	(730)	8,269	(8,999)
Department of Recreation:							
Recreation programs	2,252,013	2,200,391	-	2,200,391	51,622	6,099	45,523
Northwest River Park	463,047	444,031	-	444,031	19,016	5,642	13,374
Senior citizens program	237,244	223,656	-	223,656	13,588	-	13,588
Special programs	166,338	166,501	-	166,501	(163)	-	(163)
Department of Public Library:							
Public library	6,246,338	6,189,675	6,590	6,196,265	50,073	18,907	31,166
Records management	37,606	39,630	-	39,630	(2,024)	1,000	(3,024)
Public library state aid	238,687	203,908	33,540	237,448	1,239	-	1,239
Boards and Commissions:							
Planning	1,724,631	1,630,245	-	1,630,245	94,386	-	94,386
Planning Commission	46,209	38,438	-	38,438	7,771	-	7,771
Electoral Board	624,000	606,734	1,073,977	1,680,711	(1,056,711)	-	(1,056,711)
Electoral workers	114,290	49,340	-	49,340	64,950	-	64,950
Department of Agriculture	389,661	291,815	-	291,815	97,846	29,872	67,974
Nondepartmental:							
Support of civic and community organizations	7,387,581	6,543,688	-	6,543,688	843,893	33,440	810,453
Chesapeake Regional Airport	296,164	296,163	-	296,163	1	-	1
Debt service	2,331,120	2,333,598	-	2,333,598	(2,478)	-	(2,478)
Total general government	89,375,088	86,001,293	1,352,773	87,354,066	2,021,022	482,582	1,538,440
Public safety:							
Police Department	29,651,331	29,754,174	51,310	29,805,484	(154,153)	37,141	(191,294)
Animal Control	943,963	945,755	-	945,755	(1,792)	-	(1,792)
Public safety training	517,038	426,587	-	426,587	90,451	80,921	9,530
Fire Department	26,022,429	25,954,833	-	25,954,833	67,596	42,310	25,286
Fire Prevention Bureau	960,908	926,751	-	926,751	34,157	-	34,157
Fire training	157,635	156,726	-	156,726	909	-	909
Fire - environmental compliance	74,244	59,783	-	59,783	14,461	-	14,461
Emergency Medical Services	4,251,495	4,127,940	-	4,127,940	123,555	-	123,555
Neighborhood Services	2,964,703	2,692,520	6,406	2,699,026	265,777	1,802	263,975
Citizen Call Center	665,228	564,913	90,862	655,775	9,453	18,593	(9,140)
Neighborhood Coordination	221,946	156,919	-	156,919	65,027	48,390	16,637
Emergency management operations	185,556	203,717	-	203,717	(18,161)	-	(18,161)
Total public safety	66,616,476	65,970,618	148,578	66,119,196	497,280	229,157	268,123

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule M-2, Continued

General Fund
 Schedule of Expenditures, Encumbrances, and Other Financing Uses -
 Budget and Actual
 Year Ended June 30, 2005

	Expenditures				Unexpended Balance	Encumbrances	Unencumbered Balance
	Appropriations	Operating	Capital Outlay	Total			
Public works:							
Engineering and administration	11,141,453	10,808,418	33,677	10,842,095	299,358	17,845	281,513
Traffic engineering	1,838,776	1,695,940	13,489	1,709,429	129,347	43,563	85,784
Street maintenance	9,807,235	7,025,260	2,105,793	9,131,053	676,182	52,434	623,748
Bridges and structures	2,057,757	1,785,625	-	1,785,625	272,132	137,432	134,700
Bureau of Drainage	1,822,437	1,694,117	-	1,694,117	128,320	21,328	106,992
Street cleaning	534,718	505,660	-	505,660	29,058	-	29,058
Solid waste collection	9,172,547	9,130,349	-	9,130,349	42,198	39,999	2,199
SPSA	6,229,032	6,223,998	-	6,223,998	5,034	-	5,034
Total public works	42,603,955	38,869,367	2,152,959	41,022,326	1,581,629	312,601	1,269,028
Parks:							
Parks and grounds maintenance	3,219,872	2,940,826	-	2,940,826	279,046	137,637	141,409
Administration	661,240	614,243	-	614,243	46,997	-	46,997
Parks, grounds, and building maintenance - warehouse	73,407	54,993	-	54,993	18,414	-	18,414
Parks, grounds, and building maintenance - work order	64,999	55,492	-	55,492	9,507	-	9,507
Total parks	4,019,518	3,665,554	-	3,665,554	353,964	137,637	216,327
Total expenditures and encumbrances	202,615,037	194,506,832	3,654,310	198,161,142	4,453,895	1,161,977	3,291,918
OTHER FINANCING USES							
Payments to component unit:							
Public Schools	137,190,122	137,190,122	-	137,190,122	-	-	-
Transfers to other funds:							
Debt Service Fund	40,418,366	40,418,366	-	40,418,366	-	-	-
Capital Projects Fund	3,636,232	4,067,022	-	4,067,022	(430,790)	-	(430,790)
Virginia Public Assistance Fund	6,027,635	6,027,635	-	6,027,635	-	-	-
Community Services Fund	4,791,724	4,791,724	-	4,791,724	-	-	-
Interagency Consortium Fund	1,975,948	1,975,948	-	1,975,948	-	-	-
Community Corrections Fund	58,507	58,507	-	58,507	-	-	-
Fee Supported Activities Fund	221,245	221,245	-	221,245	-	-	-
Grants Fund	1,350,668	1,350,668	-	1,350,668	-	-	-
E-911 Operations Fund	1,540,622	1,540,622	-	1,540,622	-	-	-
Juvenile Detention Home Fund	1,880,414	1,880,414	-	1,880,414	-	-	-
Tax Increment Financing Fund	56,000	56,000	-	56,000	-	-	-

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule M-2, Continued

General Fund
 Schedule of Expenditures, Encumbrances, and Other Financing Uses -
 Budget and Actual
 Year Ended June 30, 2005

	Appropriations	Expenditures		Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay			
Transfers to other funds, continued:						
Information Technology Fund	\$ 46,896	46,896	-	46,896	-	-
City Garage Fund	1,095,255	1,095,255	-	1,095,255	-	-
Self Insurance Fund	17,690	17,690	-	17,690	-	-
Total transfers to other funds	63,117,202	63,547,992	-	(430,790)	-	(430,790)
Total other financing uses	200,307,324	200,738,114	-	(430,790)	-	(430,790)
Total expenditures, encumbrances, and other financing uses	\$ 402,922,361	395,244,946	3,654,310	4,023,105	1,161,977	2,861,128

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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, 2005

	Revised Budget	Actual	Variance Positive (Negative)
REVENUES			
Investment income	\$ 800,000	613,276	(186,724)
Revenues from use of property	115,765	115,765	-
Intergovernmental revenues:			
Commonwealth of Virginia	220,556	220,556	-
Total revenues	1,136,321	949,597	(186,724)
EXPENDITURES			
Interest on general obligation bonds	17,992,016	17,760,191	231,825
Interest on literary loans	188,291	188,290	1
Capital lease payments	1,500,154	1,500,153	1
Other debt expenditures	492,000	176,331	315,669
Redemption of general obligation bonds	24,107,429	24,107,430	(1)
Redemption of literary loans	549,493	549,493	-
Total expenditures	44,829,383	44,281,888	547,495
Deficiency of revenues under expenditures	(43,693,062)	(43,332,291)	360,771
OTHER FINANCING SOURCES (USES)			
Transfers from other funds:			
General Fund	40,418,366	40,418,366	-
Conference Center Fund	500,000	580,299	80,299
E-911 Operations Fund	1,500,154	1,500,153	(1)
Capital Projects Fund	-	1,613,668	1,613,668
Total transfers from other funds	42,418,520	44,112,486	1,693,966
Transfers to other funds:			
Transfer to General Fund	-	(125,769)	(125,769)
Transfer to Capital Projects Fund	(105,065)	(105,065)	-
Total transfers to other funds	(105,065)	(230,834)	(125,769)
Payments from component unit - Public Schools Capital Projects Fund	782,542	1,088,123	305,581
Premiums on general obligation bonds issued	492,000	134,644	(357,356)
Payment to refunded bond escrow agent	-	(913,530)	(913,530)
Total other financing sources (uses)	43,587,997	44,190,889	602,892
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(105,065)	858,598	963,663
Fund balance - beginning	24,953,815	24,953,815	-
Fund balance - ending	\$ 24,848,750	25,812,413	963,663

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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, 2005

Fund and Project	Appropriations	Prior Years	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
			Current Year	Year				
General construction projects:								
General government:								
1985 Borrowing Authority:								
Facilities high priority renewal/replacement	\$ 60,391	60,391	-	-	60,391	-	-	-
1990 Borrowing Authority:								
Infrastructure improvement	15,350	-	15,350	-	15,350	-	-	*
1992 Borrowing Authority:								
Facilities high priority renewal/replacement	83,192	83,192	-	-	83,192	-	-	-
1995 Borrowing Authority:								
Americans with Disabilities Act	124,703	124,576	-	-	124,576	127	127	-
Infrastructure improvement	297,785	-	297,785	-	297,785	-	-	*
Facilities high priority renewal/replacement	86,900	86,900	-	-	86,900	-	-	-
1996 Borrowing Authority:								
New industrial park	144,239	144,239	-	-	144,239	-	-	*
Infrastructure improvement	118,913	-	118,913	-	118,913	-	-	*
Tidewater Detention Home floor replacement	171,480	163,614	7,866	-	171,480	-	-	-
Facilities high priority renewal/replacement	17,944	17,944	-	-	17,944	-	-	-
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	-	-	-
Facilities high priority renewal/replacement	154,707	154,707	-	-	154,707	-	-	-
ARTS education building	55,000	-	-	-	55,000	55,000	-	55,000
Americans with Disabilities Act	249,772	114,840	115,691	-	230,531	19,241	-	19,241
2005A Public Improvement:								
Campostella community center	4,078,000	-	466,241	-	466,241	3,611,759	3,261,824	349,935
South Norfolk strategic development	1,500,000	-	11,606	-	11,606	1,488,394	25,177	1,463,217
Tidewater Community College-off site improvements	2,000,000	-	1,339,702	-	1,339,702	660,298	285,298	375,000
Tidewater Community College-land acquisition	750,000	-	749,357	-	749,357	643	643	-
Other funding sources:								
New Commerce Park	900,000	773,897	126,103	-	900,000	-	-	-
Undesignated utilities and water and sewer lines	13,120	-	13,120	-	13,120	-	-	-
City strategic plan	200,000	136,119	60,206	-	196,325	3,675	3,500	175
Prior CIB Commitments - Cedar Road	866,826	-	-	-	-	866,826	-	866,826
Infrastructure improvement	492,595	-	259,136	-	259,136	233,459	-	233,459
Greenbrier Mall Culvert	60,278	-	46,328	-	46,328	13,950	-	13,950

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O, (Continued)

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2005

Fund and Project	Appropriations	Prior Years	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
			Current Year					
General construction projects, continued:								
General government, continued:								
Other funding sources, continued:								
Americans with Disabilities Act	\$ 89,660	83,630	-	-	83,630	6,030	-	6,030
New business park	1,000,000	279,983	720,017	-	1,000,000	-	-	-
Undesignated utilities and water and sewer lines	482,340	-	413,003	-	413,003	69,337	-	69,337
Integrated financial management system	4,669,765	1,425,200	2,074,699	-	3,499,899	1,169,866	908,162	261,704
Infrastructure improvement	1,363,037	-	67,952	-	67,952	-	-	-
Environment assessment remedial program	150,667	1,170,498	48,984	-	1,219,482	143,555	13,879	129,676
GASB 34 implementation	500,000	125,934	-	-	125,934	24,733	-	24,733
E-government initiative	471,220	471,220	5,277	-	476,497	23,503	-	23,503
Tidewater Detention Home floor replacement	65,520	37,940	3,013	-	40,953	24,567	-	24,567
Facilities high priority renewal/replacement	516,345	346,551	162,943	-	509,494	6,851	4,450	2,401
Chesapeake Airport improvement	825,400	239,959	565,065	-	805,024	20,376	-	20,376
Facilities high priority renewal/replacement	757	443	157	-	600	157	-	157
Cash processing system - Treasurer	293,590	50,137	64,041	-	114,178	179,412	1,105	178,307
Ortho photography	312,000	198,891	83,112	-	282,003	29,997	-	29,997
South Norfolk community improvement	164,098	-	145,997	-	145,997	18,101	4,762	13,339
City-wide undesignated drainage	173,531	30,115	-	-	30,115	143,416	-	143,416
Art feasibility study	30,000	6,352	-	-	6,352	23,648	13,090	10,558
City Jail repair and remediation	911,077	33,472	22,997	-	56,469	854,608	293,370	561,238
Campostella Community Center	590,000	260,889	91,696	-	352,585	237,415	77,751	159,664
Art feasibility study	80,000	80,000	-	-	80,000	-	-	-
Americans with Disabilities Act	50,000	-	-	-	-	50,000	-	50,000
Facilities high priority portables	241,592	95,000	145,206	-	240,206	1,386	-	1,386
Detention home space study	240,000	14,465	147,533	-	161,998	78,002	72,363	5,639
Facilities high priority renewal/replacement	396,000	-	-	-	-	396,000	-	396,000
Business tax development program	165,050	-	81,149	-	81,149	83,901	65,896	18,005
Americans with Disabilities Act	50,000	-	-	-	-	50,000	-	50,000
Facilities high priority renewal/replacement	123,409	-	45,388	-	45,388	78,021	-	78,021
Northwest River watershed	100,000	-	100,000	-	100,000	-	-	-
South Norfolk plan land acquisition	450,000	-	285,398	-	285,398	164,602	-	164,602
Conference Center equipment replacement	471,544	-	164,288	-	164,288	307,256	-	307,256
Fuel tank replacement	39,202	-	-	-	-	39,202	-	39,202
Jail addition	6,593	-	-	-	-	6,593	-	6,593
Drainage	16,670	-	-	-	-	16,670	-	16,670

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O, (Continued)

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2005

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, continued:							
Thermal storage system	\$ 313	-	-	-	313	-	313
Route 17/Dominion Boulevard financing study	150,000	-	-	-	150,000	-	150,000
Future Lease Revenue Bond:							
Municipal Center parking	21,165	3,905	-	3,905	17,260	395	16,865
Total general government	29,272,152	8,838,683	9,065,319	17,904,002	11,368,150	5,031,792	6,336,358
Department of Public Safety:							
1992 Borrowing Authority:							
Fuel tank leak prevention and detection	12,057	12,057	-	12,057	-	-	-
1993 Borrowing Authority:							
Congestion mitigation air quality	2,526	2,379	147	2,526	-	-	-
Fuel tank leak prevention and detection	112,984	73,369	7,059	80,428	32,556	32,556	-
1994 Borrowing Authority:							
Jail	16,279	11,000	-	11,000	5,279	3,779	1,500
Fuel tank leak prevention and detection	31,262	31,262	-	31,262	-	-	-
1996 Borrowing Authority:							
Fire station # 9 Brentwood	42,422	32,649	9,773	42,422	-	-	-
1997 Borrowing Authority, 2003A Series:							
Fire station # 9 Brentwood	2,081,000	694,055	1,122,405	1,816,460	264,540	7,402	257,138
1997 Borrowing Authority, 2001 Series:							
Training Academy roof	60,000	39,049	-	39,049	20,951	-	20,951
2005A Public Improvement:							
Animal control bureau	840,999	-	8,778	8,778	832,221	17,855	814,366
Public safety building addition study	100,000	-	-	-	100,000	90,000	10,000
Lease Revenue Bond:							
Jail annex	19,043	-	-	-	19,043	17,840	1,203
Other funding sources:							
Fire Station # 15	54,601	23,679	20,558	44,237	10,364	9,410	954
Fire station # 9 Brentwood	49,968	37,768	12,200	49,968	-	-	-
3rd Police Precinct	336,000	306,990	-	306,990	29,010	-	29,010
Facility space	113,000	7,813	-	7,813	105,187	-	105,187

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O, (Continued)

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2005

Fund and Project	Appropriations	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year				
General construction projects, continued:							
Department of Public Safety, continued:							
Other funding sources, continued:							
Fire Station # 15	\$ 1,299	1,299	-	1,299	-	-	-
800 MHz tower demolition	163,594	-	48,670	48,670	114,924	109,730	5,194
Fire station #9 Brentwood	6,656	6,656	-	6,656	-	-	-
Total Department of Public Safety	4,043,690	1,280,025	1,229,590	2,509,615	1,534,075	288,572	1,245,503
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	248,463	-	248,463	-	-	-
1994 Road Bond Referendum, 1996 series:							
Cedar Road phase 4 and 5	227,020	221,358	-	221,358	5,662	4,860	802
Hanbury Road	103,442	103,442	30	103,442	-	-	-
Jordan Bridge	44,300	44,300	-	44,300	-	-	-
Jordan Bridge repair	18,193	18,193	-	18,193	-	-	-
Battlefield Boulevard AIW Bridge	259,681	259,681	-	259,681	-	-	-
Kempsville Road phase 2	23,048	23,048	-	23,048	-	-	-
Master Road plan study	10,000	10,000	-	10,000	-	-	-
Parker Road configuration	144,679	131,952	3,477	135,429	9,250	-	9,250
Portsmouth Boulevard phase 4	3,008	3,008	-	3,008	-	-	-
Undesignated public works projects	30,483	11,066	19,417	30,483	-	-	-
Volvo Parkway	8,600	-	8,600	8,600	-	-	-
Dock Landing Road Extension Bridge	50,000	50,000	-	50,000	-	-	-
Various traffic signals	74,422	73,384	-	73,384	1,038	1,038	-
Wellons-Forehand overpass	158,131	158,131	-	158,131	-	-	-
Cedar Road 4, 5, and 6 construction	564,990	140,274	239,662	379,936	185,054	-	185,054
Battlefield AIW Bridge	200,055	200,055	-	200,055	-	-	-
1994 Road Bond Referendum, 1998 Series:							
Hanbury Road	559,974	559,974	-	559,974	-	-	-
Cedar Road phase 1, 2, 3, 4, and 5	1,637,921	1,634,501	3,420	1,637,921	-	-	-
Wellons-Forehand overpass	73,600	73,600	-	73,600	-	-	-
Kempsville Road phase 2	2,282	-	2,282	2,282	-	-	-

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O, (Continued)

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2005

Fund and Project	Appropriations	Prior Years	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
			Current Year					
General construction projects, continued:								
Department of Public Works, continued:								
1994 Road Bond Referendum, 1998 Series, continued:								
Battlefield AIW Bridge	\$ 281,777	281,777	-	281,777	281,777	-	-	- *
Cedar Road 4 and 5	61,882	-	61,882	61,882	61,882	-	-	-
1994 Road Bond Referendum, 2003 series:								
Cedar Road 4 and 5	9,300,000	472,503	3,923,642	4,396,145	4,396,145	4,903,855	4,903,855	-
Cedar Road 4 and 5 land	1,200,000	938,934	166,652	1,105,586	1,105,586	94,414	-	94,414
1984 Borrowing Authority:								
Kempsville Road phase 2	242	-	242	242	242	-	-	-
Cedar Road 4 and 5	3,300	-	3,300	3,300	3,300	-	-	-
1986 Borrowing Authority:								
Facilities high priority renewal/replacement	7,674	7,674	-	7,674	7,674	-	-	-
1987 Borrowing Authority:								
Cedar Road 4 and 5	8,091	-	8,091	8,091	8,091	-	-	-
Gum Road multi-use	7,594	-	7,594	7,594	7,594	-	-	-
Kempsville Road phase 2	2,687	-	2,687	2,687	2,687	-	-	-
Fernwood Farms	5,511	-	5,511	5,511	5,511	-	-	-
1989 Borrowing Authority:								
Master road plan study	133,112	133,112	-	133,112	133,112	-	-	-
Portsmouth Boulevard phase 4	31,211	31,211	-	31,211	31,211	-	-	-
City strategic plan	50,000	50,000	-	50,000	50,000	-	-	-
Battlefield AIW Bridge	124,683	124,683	-	124,683	124,683	-	-	- *
Fuel tank leak prevention and detection	4,495	4,495	-	4,495	4,495	-	-	-
Fernwood Farms	72,994	-	72,994	72,994	72,994	-	-	-
Cedar Road 4 and 5	9,177	-	9,177	9,177	9,177	-	-	-
1990 Borrowing Authority:								
Kempsville Road phase 2	582	250	332	582	582	-	-	-
Kempsville Road phase 2	1,043	1,043	-	1,043	1,043	-	-	-
Portsmouth Boulevard phase 4	77	77	-	77	77	-	-	-
Cedar Road 4 and 5	1,832	-	1,832	1,832	1,832	-	-	-
1992 Borrowing Authority:								
Undesignated public works projects	5,344	5,343	-	5,343	5,343	1	1	-
Portsmouth Boulevard phase 4	23,833	23,833	-	23,833	23,833	-	-	-
Battlefield AIW Bridge	54,574	54,574	-	54,574	54,574	-	-	- *

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O, (Continued)

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2005

Fund and Project	Appropriations	Expenditures		Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year			
General construction projects, continued:						
Department of Public Works, continued:						
1992 Borrowing Authority, continued:						
Fernwood Farms	\$ 13,846	-	13,846	-	-	-
Cedar Road 4 and 5	43,568	-	43,568	-	-	-
1993 Borrowing Authority:						
Dock Landing Road extension	6,995	6,995	-	-	-	-
Portsmouth Boulevard phase 4	16,029	16,029	-	-	-	-
Various traffic signals	362,139	362,139	-	-	-	-
Poindexter Street improvements	6,809	6,809	-	-	-	-
Facilities high priority renewal/replacement	3,508	3,508	-	-	-	-
Battlefield AIW Bridge	20,306	20,306	-	-	-	*
Cedar Road 4 and 5	100,083	-	100,083	-	-	-
1994 Borrowing Authority:						
Various traffic signals	91,781	91,347	-	434	-	434
Facilities high priority renewal/replacement	7,611	7,611	-	-	-	-
Battlefield AIW Bridge	86,125	86,125	-	-	-	*
Cedar Road 4 and 5	54,401	-	54,401	-	-	-
1995 Borrowing Authority:						
Street lights	560,586	560,586	-	-	-	-
Cedar Road phase 4 and 5	88,327	42,403	-	45,924	45,924	-
Undesignated public works projects	48,490	48,490	-	-	-	-
Portsmouth Boulevard phase 4	72,527	72,177	350	-	-	-
Various traffic signals	306,891	306,891	-	-	-	-
Poindexter Street improvement	1,510	1,510	-	-	-	-
Battlefield AIW Bridge	115,066	115,066	-	-	-	*
Cedar Road 4 and 5	158,542	-	158,542	-	-	-
1996 Borrowing Authority:						
Dock Landing bikeway	165	165	-	-	-	-
Street lights	105,431	105,431	-	-	-	-
Cedar Road	62,725	62,725	-	-	-	-
Kempsville Road phase 2	20,304	20,304	-	-	-	-
Kempsville Road phase 3	110,056	110,056	-	-	-	-
Dock Landing Road extension	18,700	18,700	-	-	-	-
Cedar Road	541,515	-	383,808	157,707	157,707	-
Fernwood Farms sidewalk	93,022	-	93,022	-	-	-

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O, (Continued)

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2005

Fund and Project	Appropriations	Prior Years	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
			Current Year					
General construction projects, continued:								
Department of Public Works, continued:								
1996 Borrowing Authority, continued:								
Undesignated public works projects	\$ 6,167	6,167	-	6,167		-	-	-
Battlefield Boulevard AIW Bridge	479,938	479,938	-	479,938		-	-	*
Business tax development program	39,951	-	39,145	39,145		806	806	-
1997 Borrowing Authority, 1998 Series:								
Gilmerton Bridge rehabilitation	155,586	149,217	6,369	155,586		-	-	-
Cedar Road phase 4 and 5	1,221,359	59,523	1,161,836	1,221,359		-	-	-
2005A Public Improvement:								
Crestwood and drainage improvements	50,000	-	6,600	6,600		43,400	-	43,400
Military Highway study and streetlights	580,000	-	108,817	108,817		471,183	79,092	392,091
Other funding sources:								
Street lights	93,720	-	-	-		93,720	-	93,720
Battlefield Boulevard AIW Bridge	1,932,705	618,973	1,311,557	1,930,530		2,175	2,175	-
Gum Road multi-use	89,527	-	3,918	3,918		85,609	-	85,609
Cedar Road phase 4 and 5	2,186,260	1,029,068	126	1,029,194		1,157,066	-	1,157,066
Gilmerton Bridge - interim	534,858	112,209	3,242	115,451		419,407	-	419,407
Infrastructure improvements	7,405	-	-	-		7,405	-	7,405
Repair and maintenance - roads	406,803	60,286	-	60,286		346,517	-	346,517
Cedar Road 4 and 5	850,000	711,104	-	783,688		66,312	66,312	-
Kempsville Road pump station relocation	4,840	-	-	-		4,840	-	4,840
Kempsville Road phase 2	259,263	-	4,380	4,380		254,883	-	254,883
Various traffic signals	344,767	144,685	1,222	145,907		198,860	-	198,860
Volvo/Progressive Drive signal	422	421	-	421		1	1	-
Portsmouth Boulevard phase 4	105,774	-	-	-		105,774	-	105,774
Master Road Plan	32,163	-	-	-		32,163	-	32,163
Undesignated public works projects	127,017	18,724	66,228	84,952		42,065	-	42,065
Jordan Bridge	549,793	-	245,375	245,375		304,418	61,344	243,074
Femwood Farms sidewalk	4,627	-	4,627	4,627		-	-	-
Master Road Plan	21,326	-	-	-		21,326	-	21,326
Volvo Parkway	11,970	-	-	-		11,970	-	11,970
Grade Crossing Safety	5,000	-	159	159		4,841	-	4,841
Traffic signals and intersection improvements	154,000	-	5,610	5,610		148,390	10,990	137,400
Congestion mitigation	167,828	-	42	42		167,786	-	167,786

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O, (Continued)

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2005

Fund and Project	Appropriations	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year				
General construction projects, continued:							
Department of Public Works, continued:							
Other funding sources, continued:							
Greentree	\$ 15,793	-	-	-	15,793	-	15,793
Dock Landing - road extension	25,967	-	-	-	25,967	-	25,967
Traffic signals and intersection improvements	100,000	-	-	-	100,000	-	100,000
Mildam Creek stream assessment	42,500	-	38,499	38,499	4,001	-	4,001
Volvo Parkway	16,000	-	7,352	7,352	8,648	-	8,648
Parker Road configuration	185,421	-	-	-	185,421	-	185,421
Kempsville Road phase 3	335,201	8,480	246	8,726	326,475	-	326,475
Salt storage building	5,000	-	-	-	5,000	-	5,000
Hanbury Road Interchange	227,280	-	-	-	227,280	-	227,280
Poindexter Street	148,931	23,233	25,810	49,043	99,888	5,801	94,087
Chesapeake Virginia Beach Fenness land study	25,000	25,000	-	25,000	-	-	-
Rt 17/ Mill Creek Parkway/ Old Mill Road	126,694	-	-	-	126,694	-	126,694
Parker Road pavement widening	25,000	25,000	-	25,000	-	-	-
Traffic sign and intersection	106,000	-	-	-	106,000	-	106,000
Battlefield Blvd AIW Bridge	53,307	-	-	-	53,307	-	53,307
Pro-rata drainage projects:							
Master drainage plan	1,610,000	14,174	1,878	16,052	1,593,948	377,830	1,216,118
Greenbrier Mall culvert	300,500	49,771	250,729	300,500	-	-	-
New Mill Creek watershed	65,000	-	65,000	65,000	-	-	-
Deep Creek watershed	100,000	-	92,000	92,000	8,000	-	8,000
Construction reimbursement - Other:							
Volvo/Progressive Drive signal	30,000	5,215	-	5,215	24,785	-	24,785
Intersection improvements	22,489	-	-	-	22,489	-	22,489
Traffic signal - Cedar Commons	171,807	11,140	113,345	124,485	47,322	26,217	21,105
Lamberts Trail drainage project	41,483	39,232	-	39,232	2,251	-	2,251
Battlefield Boulevard AIW Bridge	4,134,000	4,134,000	-	4,134,000	-	-	-
Construction reimbursement - VDOT:							
Greenbrier Parkway intersection improvements	148,000	50,153	15,934	66,087	81,913	13,907	68,006
Gum Road multi-use	500,000	42,657	3,391	46,048	453,952	26,641	427,311
Poindexter Street improvement	840,000	122,640	105,607	228,247	611,753	23,202	588,551
Rt. 104 Steel Bridge	1,700,000	242,314	851,382	1,093,696	606,304	324,237	282,067
Signal system upgrade	3,016,000	1,349,570	1,099,384	2,448,954	567,046	560,407	6,639
Great Bridge Battlefield, Waterway Visitor Center, and Trail	120,000	-	-	-	120,000	-	120,000

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O, (Continued)

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2005

Fund and Project	Appropriations	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year				
General construction projects, continued:							
Department of Public Works, continued:							
Construction reimbursement - VDOT, continued:							
Kempsville widening project	\$ 95,500	89,469	6,031	95,500	-	-	-
Cedar Road bike path	122,405	-	114,237	114,237	8,168	-	8,168 *
Battlefield Boulevard emergency preparation	51,986	-	37,876	37,876	14,110	-	14,110
Volvo/Progressive Drive signal	210,253	210,188	-	210,188	65	-	65
Grade crossing safety	45,000	-	-	-	45,000	-	45,000
Route 17/steel bridge	3,028,000	-	-	-	3,028,000	-	3,028,000
Smart traffic control phase 2	4,202,273	-	-	-	4,202,273	-	4,202,273
Total Department of Public Works	51,369,389	17,991,833	11,258,982	29,250,815	22,118,574	6,692,347	15,426,227
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	2,299,027	1,117,678	3,416,705	225,995	42,018	183,977
Total Department of Libraries	3,676,700	2,333,027	1,117,678	3,450,705	225,995	42,018	183,977
Department of Parks and Recreation:							
1995 Borrowing Authority:							
Riprap - Elizabeth River Park	50,100	50,100	-	50,100	-	-	-
Centerville Turnpike Park	70,900	-	70,900	70,900	-	-	-
1996 Borrowing Authority:							
Park land acquisition	1,294,473	1,239,923	54,550	1,294,473	-	-	-
2005A Public Improvement:							
Centerville Turnpike Park	2,176,100	-	-	-	2,176,100	-	2,176,100
Camp 22 acquisition and improvements	1,780,000	-	200	200	1,779,800	-	1,779,800
Battlefield visitor center	220,000	-	-	-	220,000	-	220,000
Other funding sources:							
Cedar Crossings Park	14,669	-	14,669	14,669	-	-	-
Camelot Park	41,968	-	41,968	41,968	-	-	-
Cedar Crossings	36,889	-	36,889	36,889	-	-	-
Campostella Square Commercial Center	770,000	-	-	-	770,000	-	770,000
Develop new park	30,649	-	3,559	3,559	27,090	-	27,090
New parks open space	242,000	217,238	-	217,238	24,762	-	24,762

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O, (Continued)

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2005

Fund and Project	Appropriations	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year				
General construction projects, continued:							
Department of Parks and Recreation, continued:							
Other funding sources, continued:							
Centerville Turnpike Park	\$ 256,012	-	11,790	11,790	244,222	29,681	214,541
River's Edge play area	27,248	-	-	-	27,248	-	27,248
Marsh Creek play area	27,248	-	27,248	27,248	-	-	-
Emerald Lakes picnic shelter	12,787	-	12,787	12,787	-	-	-
Oak Grove Lake Park	158,317	-	-	-	158,317	-	158,317
Western Branch dog park	20,000	-	19,531	19,531	469	-	469
Southwestern basketball court	21,000	-	228	228	20,772	-	20,772
Kempsville Road phase 2	20,000	-	-	-	20,000	-	20,000
Volvo Parkway	28,740	-	-	-	28,740	-	28,740
Stonegate Park	22,000	-	14,442	14,442	7,558	-	7,558
Bryant Farms Park	27,000	-	-	-	27,000	13,877	13,123
Elizabeth River Park	16,995	-	16,995	16,995	-	-	-
Miar's Plantation	45,969	27,540	3,559	31,099	14,870	-	14,870
Chesapeake City Park	75,000	33,388	5,412	38,800	36,200	2,008	34,192
Sawyers Mill Park	58,963	38,963	-	38,963	20,000	-	20,000
New parks development open space	82,360	-	2,635	2,635	79,725	-	79,725
Centerville Turnpike Park	659,816	-	2,135	2,135	657,681	-	657,681
Land acquisition-parks	136,067	-	52,189	52,189	83,878	-	83,878
Deep Creek Lock Park	167,815	-	-	-	167,815	6,200	161,615
South Battlefield Park	21,185	-	-	-	21,185	21,000	185
Atlantic Avenue Park	35,048	-	7,649	7,649	27,399	27,399	-
Indian River High School athletic field	105,000	-	236	236	104,764	163,000	(58,236)
Open space and agriculture	75,000	-	458	458	74,542	-	74,542
Centerville Turnpike Park	250,000	-	-	-	250,000	-	250,000
Battlefield visitor center	110,000	-	358	358	109,642	57,300	52,342
Hunter's Cove Park	15,000	-	-	-	15,000	-	15,000
Rock climbing facilities	40,000	-	-	-	40,000	-	40,000
Parkview Park	15,000	-	-	-	15,000	-	15,000
Rivercrest Park	15,000	-	-	-	15,000	-	15,000
Cascade Boulevard playground	20,000	-	-	-	20,000	-	20,000
Bells Mill Park	22,000	-	-	-	22,000	-	22,000
Cheshire Forest Park	15,000	-	-	-	15,000	-	15,000
Camelot Park	15,000	-	-	-	15,000	-	15,000

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O, (Continued)

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2005

Fund and Project	Appropriations	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year				
General construction projects, continued: Department of Parks and Recreation, continued: Other funding sources, continued: Comland Park Waterstone Bikeway lane Total Department of Parks and Recreation	\$ 25,000 16,927 91,968 9,478,213	- - - 1,607,152	- - - 400,387	- - - 2,007,539	25,000 16,927 91,968 7,470,674	- - - 320,465	25,000 16,927 91,968 7,150,209
Total general construction projects	97,840,144	32,050,720	23,071,956	55,122,676	42,717,468	12,375,194	30,342,274
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: Street lights Master road plan study Gum Road multi-use Total Department of Public Works	21,254 8,399 27,879 57,532	7,648 8,399 -	- - -	7,648 8,399 -	13,606 -	- -	13,606 -
Total revenue sharing projects	59,996	16,047	-	16,047	41,485	-	41,485
Total general construction projects and revenue sharing projects	97,900,140	32,066,767	23,071,956	55,138,723	42,761,417	12,375,194	30,386,223
School capital projects: 2003A Virginia Public School Authority: Grassfield High School 2005A Virginia Public School Authority: Grassfield High School Other funding sources: Grassfield High School Future borrowings: Grassfield High School	2,400,000 20,422,404 2,019,889 41,151,707	443,517 -	1,956,483 327,233 1,681,103 -	2,400,000 327,233 1,681,103 -	- 20,095,171 338,786 41,151,707	- 18,033,957 -	- 2,061,214 338,786 5,772,776
Total school capital projects	65,994,000	443,517	3,964,819	4,408,336	61,585,664	53,412,888	8,172,776

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule O, (Continued)

Capital Projects Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2005

Fund and Project	Appropriations	Expenditures		Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year			
Community development projects:						
Compostella	\$ 4,147,878	3,623,290	428,213	96,375	-	96,375
Queen City	17,946	4,652	-	13,294	-	13,294
Total community development projects	4,165,824	3,627,942	428,213	109,669	-	109,669
Lease revenue bonds (trustee):						
Circuit Court building	-	1,249,020	70,204	(1,319,224)	-	(1,319,224)
City Jail addition/renovation	-	282,157	549,030	(831,187)	-	(831,187)
Total lease revenue bonds (trustee)	-	1,531,177	619,234	(2,150,411)	-	(2,150,411)
Supplemental agreements (trustee):						
Oak Grove Connector	-	2,211,316	-	(2,211,316)	-	(2,211,316)
Total expenditures	\$ 168,059,964	\$ 39,880,719	\$ 28,084,222	\$ 100,095,023	\$ 65,788,082	\$ 34,306,941
Less completed projects			12,869,684			
Construction in progress			\$ 55,095,257			

* 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 for the Community Services Board.

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

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

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

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

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

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

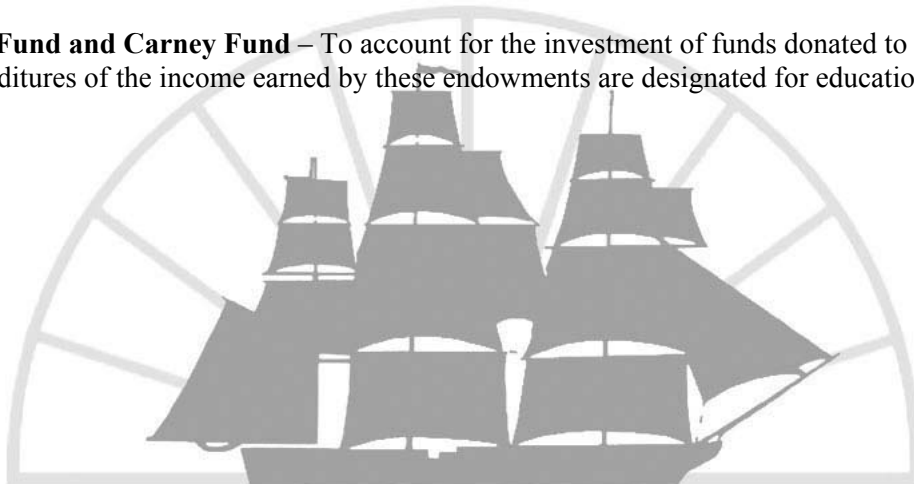
Grants Fund – To account for revenues and expenditures related to specific grant activities.

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

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, 2005

	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	\$ -	4,302,253	423,376	1,346,915	-	1,417,734	79,742
Intergovernmental revenues due from:							
Commonwealth of Virginia	407,015	-	-	-	-	605,928	-
Federal government	830,093	-	-	-	254,448	-	-
Receivables:							
Accounts receivable	-	-	-	81,432	-	182	-
Other	-	-	-	-	20,000	-	-
Total assets	1,237,108	4,302,253	423,376	1,428,347	274,448	2,023,844	79,742
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	313,633	438,029	-	145,625	120,243	454,334	11,739
Deposits	-	-	-	6,571	-	-	-
Accrued expenditures	-	-	-	14,675	-	-	-
Deferred revenues	-	306,026	-	-	-	-	-
Due to other funds	59,022	-	-	317,009	163,194	-	-
Total liabilities	372,655	744,055	-	483,880	283,437	454,334	11,739
Fund balances							
Reserved:							
Expendable	-	125,260	-	9,627	11,533	1,245	-
Nonexpendable	-	-	-	-	-	-	-
Unreserved:							
Designated	-	-	-	47	-	-	-
Undesignated	864,453	3,432,938	423,376	934,793	(20,522)	1,568,265	68,003
Total fund balances	864,453	3,558,198	423,376	944,467	(8,989)	1,569,510	68,003
Total liabilities and fund balances	\$ 1,237,108	4,302,253	423,376	1,428,347	274,448	2,023,844	79,742

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-1, Continued

Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2005

	Special Revenue Funds							Permanent Funds			Total Nonmajor Governmental Funds
	Fee Supported Activities	Tax Increment Financing	Grants	E-911 Operations	Juvenile Detention Home	Poor	Carney				
ASSETS											
Cash and temporary investments	\$ 522,340	265,749	3,716,443	342,096	70,283	142,900	11,130			12,640,961	
Intergovernmental revenues due from:											
Commonwealth of Virginia	-	-	65,652	-	584,600	-	-	-	-	1,663,195	
Federal government	-	-	321,925	-	-	-	-	-	-	1,406,466	
Receivables:											
Accounts receivable	8,652	-	-	269,909	386,839	-	-	-	-	747,014	
Other	-	-	-	-	-	-	-	-	-	20,000	
Total assets	530,992	265,749	4,104,020	612,005	1,041,722	142,900	11,130			16,477,636	
LIABILITIES AND FUND BALANCES											
Liabilities											
Accounts payable	1,265	-	466,092	14,048	16,944	-	-	-	-	1,981,952	
Deposits	-	-	-	-	-	-	-	-	-	6,571	
Accrued expenditures	467	-	-	5,674	35,296	-	-	-	-	56,112	
Deferred revenues	-	-	-	82,908	-	-	-	-	-	388,934	
Due to other funds	-	-	-	-	-	-	-	-	-	539,225	
Total liabilities	1,732	-	466,092	102,630	52,240	-	-	-	-	2,972,794	
Fund balances											
Reserved:											
Expendable	3,581	7,000	224,428	81,769	-	-	-	-	-	464,443	
Nonexpendable	-	-	-	-	-	11,295	1,500	-	-	12,795	
Unreserved:											
Designated	62,506	-	-	-	-	-	-	-	-	62,533	
Undesignated	463,173	258,749	3,413,500	427,606	989,482	131,605	9,630	-	-	12,965,051	
Total fund balances	529,260	265,749	3,637,928	509,375	989,482	142,900	11,130	-	-	13,504,842	
Total liabilities and fund balances	\$ 530,992	265,749	4,104,020	612,005	1,041,722	142,900	11,130	-	-	16,477,636	

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-2

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance

Nonmajor Governmental Funds
Year Ended June 30, 2005

	Special Revenue Funds						
	Virginia Public Assistance	Community Services	CSB of Chesapeake, Inc.	Conference Center	Community Development	Interagency Consortium	Community Corrections
REVENUES							
Taxes on real property	-	-	-	-	-	-	-
Consumer telephone tax E-911	-	-	-	-	-	-	-
Restaurant food tax	-	-	-	1,495,142	-	-	-
Lodging sales tax	-	-	-	448,934	-	-	-
Intergovernmental revenues:							
Commonwealth of Virginia	3,926,650	4,965,175	-	-	2,177,131	1,962,365	425,324
Federal Government	8,516,021	1,217,223	-	-	285	-	-
Recovered costs	16,371	525	-	1,126	-	2,486	-
Investment income	226	64,156	27,800	20,922	-	20,437	1,045
Charges for services	475	2,004,543	-	2,718,567	-	-	-
Miscellaneous local revenues	-	364	-	219	-	-	-
Program income	-	-	-	-	172,643	-	-
Total revenues	12,459,743	8,251,986	27,800	4,684,910	2,350,059	1,985,288	426,369
EXPENDITURES							
Current:							
General government	-	-	-	3,622,372	-	-	463,245
Public safety	-	-	-	-	-	-	-
Parks	-	-	-	-	-	-	-
Public welfare	18,213,695	12,122,156	271,967	-	1,954,898	3,470,283	-
Capital outlay	118,429	197,863	5,682,376	-	211,867	-	-
Total expenditures	18,332,124	12,320,019	5,954,343	3,622,372	2,166,765	3,470,283	463,245
Excess (deficiency) of revenues over (under) expenditures	(5,872,381)	(4,068,033)	(5,926,543)	1,062,538	183,294	(1,484,995)	(36,876)
OTHER FINANCING SOURCES (USES)							
Transfers from other funds	6,027,635	4,791,724	271,867	-	-	1,975,948	58,507
Transfers to other funds	(11,627)	(345,798)	-	(1,072,765)	(428,213)	(20,437)	(7,135)
Total other financing sources (uses)	6,016,008	4,445,926	271,867	(1,072,765)	(428,213)	1,955,511	51,372
Net change in fund balances	143,627	377,893	(5,654,676)	(10,227)	(244,919)	470,516	14,496
Fund balance - beginning	720,826	3,180,305	6,078,052	954,694	235,930	1,098,994	53,507
Fund balance - ending	\$ 864,453	\$ 3,558,198	\$ 423,376	\$ 944,467	\$ (8,989)	\$ 1,569,510	\$ 68,003

(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, 2005

	Special Revenue Funds						Permanent Funds			Total Nonmajor Governmental Funds
	Fee Supported Activities	Tax Increment Financing	Grants	E-911 Operations	Juvenile Detention Home	Poor	Carney			
REVENUES										
Taxes on real property	\$ -	286,127	-	-	-	-	-	-	286,127	
Consumer telephone tax E-911	-	-	-	3,145,151	-	-	-	-	3,145,151	
Restaurant food tax	-	-	-	-	-	-	-	-	1,495,142	
Lodging sales tax	-	-	-	-	-	-	-	-	448,934	
Intergovernmental revenues:										
Commonwealth of Virginia	-	-	665,254	204,581	2,515,736	-	-	-	14,665,085	
Federal Government	-	-	1,628,334	-	11,478	-	-	-	13,550,187	
Recovered costs	-	-	1,132	-	2,558,010	-	-	-	2,579,935	
Investment income	7,716	-	353	5,054	-	3,221	52	-	150,982	
Charges for services	151,506	-	-	-	-	-	-	-	4,875,091	
Miscellaneous local revenues	-	-	2,704	-	-	-	-	-	3,287	
Program income	-	-	-	-	-	-	-	-	172,643	
Total revenues	159,222	286,127	2,297,777	3,354,786	5,085,224	3,221	52	-	41,372,564	
EXPENDITURES										
Current:										
General government	-	76,378	992,596	-	6,408,192	-	-	-	11,562,783	
Public safety	168,100	-	1,032,000	3,155,376	-	-	-	-	4,355,476	
Parks	-	-	266,566	-	-	-	-	-	266,566	
Public welfare	-	-	1,324,982	-	-	-	-	-	37,357,981	
Capital outlay	-	-	665,500	-	-	-	-	-	6,876,035	
Total expenditures	168,100	76,378	4,281,644	3,155,376	6,408,192	-	-	-	60,418,841	
Excess (deficiency) of revenues over (under) expenditures	(8,878)	209,749	(1,983,867)	199,410	(1,322,968)	3,221	52	-	(19,046,277)	
OTHER FINANCING SOURCES (USES)										
Transfers from other funds	221,245	56,000	1,361,045	1,640,011	1,880,414	-	-	-	18,284,396	
Transfers to other funds	(7,716)	-	(26,441)	(1,505,207)	-	-	-	-	(3,425,339)	
Total other financing sources (uses)	213,529	56,000	1,334,604	134,804	1,880,414	-	-	-	14,859,057	
Net change in fund balances	204,651	265,749	(649,263)	334,214	557,446	3,221	52	-	(4,187,220)	
Fund balance - beginning	324,609	-	4,287,191	175,161	432,036	139,679	11,078	-	17,692,062	
Fund balance - ending	\$ 529,260	265,749	3,637,928	509,375	989,482	142,900	11,130	-	13,504,842	

CITY OF CHESAPEAKE, VIRGINIA

Virginia Public Assistance Fund

Schedule of Revenues and Other Financing Source - Budget and Actual

Year Ended June 30, 2005

	Revised Budget	Actual	Variance Positive (Negative)
REVENUES			
Intergovernmental revenues:			
Commonwealth of Virginia	\$ 4,305,843	3,926,650	(379,193)
Federal government	7,528,277	8,516,021	987,744
Total intergovernmental revenues	11,834,120	12,442,671	608,551
Recovered costs	-	16,371	16,371
Charges for services	-	475	475
Investment income	-	226	226
Total revenues	11,834,120	12,459,743	625,623
OTHER FINANCING SOURCE			
Transfer from the General Fund	6,027,635	6,027,635	-
Total revenues and other financing source	\$ 17,861,755	18,487,378	625,623

CITY OF CHESAPEAKE, VIRGINIA

Virginia Public Assistance Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2005

	Revised Budget	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay				
EXPENDITURES							
Public welfare:							
Bureau of Public Assistance	\$ 4,180,134	4,334,860	-	4,334,860	(154,726)	-	(154,726)
Administration	9,539,896	9,256,986	118,429	9,375,415	164,481	-	164,481
Employment Service Program/VIEW	3,307,030	3,724,616	-	3,724,616	(417,586)	-	(417,586)
Food Stamp Administration	947,125	808,858	-	808,858	138,267	-	138,267
Social Services grants	116,912	88,375	-	88,375	28,537	-	28,537
Total expenditures and encumbrances	\$ 18,091,097	18,213,695	118,429	18,332,124	(241,027)	-	(241,027)

CITY OF CHESAPEAKE, VIRGINIA

Community Services Fund
 Schedule of Revenues and Other Financing Source - Budget and Actual
 Year Ended June 30, 2005

	Revised Budget	Actual	Variance Positive (Negative)
REVENUES			
Intergovernmental revenues:			
From the Commonwealth of Virginia:			
Substance abuse grants	\$ 755,105	758,276	3,171
Mental health grants	4,428,785	3,622,773	(806,012)
Mental retardation grants	584,126	584,126	-
Total from the Commonwealth of Virginia	5,768,016	4,965,175	(802,841)
From the Federal government:			
Substance abuse and mental health and retardation grant	1,424,198	1,217,223	(206,975)
Charges for services:			
Mental health fees	966,801	1,017,526	50,725
Mental retardation fees	643,216	606,529	(36,687)
Mental retardation Medicaid waivers	223,500	206,393	(17,107)
Substance abuse fees	157,778	174,095	16,317
Total charges for services	1,991,295	2,004,543	13,248
Recovered costs	-	525	525
Investment income	-	64,156	64,156
Miscellaneous revenue	-	364	364
Total revenues	9,183,509	8,251,986	(931,523)
OTHER FINANCING SOURCE			
Transfer from the General Fund	4,791,724	4,791,724	-
Total revenues and other financing source	\$ 13,975,233	13,043,710	(931,523)

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-6

Community Services Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2005

	Revised Budget	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay				
EXPENDITURES - Public welfare	\$ 14,410,932	12,122,156	197,863	12,320,019	2,090,913	125,260	1,965,653
Total expenditures and encumbrances	\$ 14,410,932	12,122,156	197,863	12,320,019	2,090,913	125,260	1,965,653

CITY OF CHESAPEAKE, VIRGINIA

Conference Center Fund
Schedule of Revenues - Budget and Actual
Year Ended June 30, 2005

	Revised Budget	Actual	Variance Positive (Negative)
REVENUES			
Restaurant food tax	\$ 1,275,000	1,495,142	220,142
Lodging sales tax	350,000	448,934	98,934
Recovered costs	6,000	1,126	(4,874)
Investment income	-	20,922	20,922
Charges for services	2,484,000	2,718,567	234,567
Miscellaneous revenues	2,000	219	(1,781)
Total revenues	\$ 4,117,000	4,684,910	567,910

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-8

Conference Center Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2005

	Revised Budget	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay				
EXPENDITURES - General government	\$ 3,660,063	3,622,372	-	3,622,372	37,691	9,627	28,064
Total expenditures and encumbrances	\$ 3,660,063	3,622,372	-	3,622,372	37,691	9,627	28,064

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-9

Community Development Fund, Interagency Consortium Fund, Community Corrections Fund,
 Fee Supported Activities Fund, Tax Increment Financing 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, 2005

	Revised Budget	Actual	Variance Positive (Negative)
Community Development Fund			
Revenues			
Intergovernmental revenues from the Federal government:			
Community Development Block grant	\$ 1,476,000	1,582,780	106,780
Home Rehabilitation Program	769,465	594,351	(175,114)
Program income	802,298	172,643	(629,655)
Recovered costs	-	285	285
Total revenues	\$ 3,047,763	2,350,059	(697,704)
Interagency Consortium Fund			
Revenues			
Intergovernmental revenues:			
Commonwealth of Virginia	\$ 1,483,141	1,962,365	479,224
Recovered costs	-	2,486	2,486
Investment income	-	20,437	20,437
Total revenues	1,483,141	1,985,288	502,147
Other financing source - transfer from the General Fund	1,975,948	1,975,948	-
Total revenues and other financing source	\$ 3,459,089	3,961,236	502,147
Community Corrections Fund			
Revenues			
Intergovernmental revenues from the Commonwealth of Virginia:			
Community Corrections Act	\$ 425,324	425,324	-
Investment income	-	1,045	1,045
Total revenues	425,324	426,369	1,045
Other financing source - transfer from the General Fund	58,507	58,507	-
Total revenues and other financing source	\$ 483,831	484,876	1,045
Fee Supported Activities Fund			
Revenues			
Charges for services	\$ 264,417	151,506	(112,911)
Investment income	-	7,716	7,716
Total revenues	264,417	159,222	(105,195)
Other financing source - transfer from the General Fund	221,245	221,245	-
Total revenues and other financing source	\$ 485,662	380,467	(105,195)
Tax Increment Financing Fund			
Revenues			
Taxes on real property	\$ 286,127	286,127	-
Other financing source - transfer from the General Fund	56,000	56,000	-
Total revenues and other financing source	\$ 342,127	342,127	-
Grants Fund			
Revenues			
Intergovernmental revenues:			
Commonwealth of Virginia	\$ 618,992	665,254	46,262
Federal government	1,675,025	1,628,334	(46,691)
Recovered costs	-	1,132	1,132
Investment income	2,708	353	(2,355)
Miscellaneous revenues	36,407	2,704	(33,703)
Total revenues	2,333,132	2,297,777	(35,355)
Other financing sources			
Transfer from the General Fund	1,350,668	1,350,668	-
Transfer from other funds	10,377	10,377	-
Total other financing sources	1,361,045	1,361,045	-
Total revenues and other financing sources	\$ 3,694,177	3,658,822	(35,355)
E-911 Operations Fund			
Revenues			
Consumer telephone tax E-911	\$ 3,320,000	3,145,151	(174,849)
Intergovernmental revenues from the Commonwealth of Virginia:			
Wireless E-911 service board	238,940	204,581	(34,359)
Investment income	-	5,054	5,054
Total revenues	3,558,940	3,354,786	(204,154)
Other financing sources			
Transfer from the General Fund	1,540,622	1,540,622	-
Transfer from other funds	-	99,389	99,389
Total other financing sources	1,540,622	1,640,011	99,389
Total revenues and other financing source	\$ 5,099,562	4,994,797	(104,765)
Juvenile Detention Home Fund			
Revenues			
Intergovernmental revenues:			
Commonwealth of Virginia	\$ 2,284,684	2,515,736	231,052
Federal government	-	11,478	11,478
Recovered costs	2,208,651	2,558,010	349,359
Total revenues	4,493,335	5,085,224	591,889
Other financing source - transfer from the General Fund	1,880,414	1,880,414	-
Total revenues and other financing source	\$ 6,373,749	6,965,638	591,889

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-10

Community Development Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2005

	Appropriations	Expenditures - Public Welfare		Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year			
HUD-Twenty-Three:						
HOME program grant	\$ 493,310	489,653	-	489,653	-	3,657
Total HUD-Twenty-Three	493,310	489,653	-	489,653	-	3,657
HUD-Twenty-Four:						
Administrative project costs	88,671	88,474	-	88,474	-	197
Other project costs	35,000	5,700	-	5,700	-	29,300
HOME program grant	588,613	539,887	43,383	583,270	-	5,343
Pughsville sewer assistance	144,607	900	-	900	-	143,707
Total HUD-Twenty-Four	856,891	634,961	43,383	678,344	-	178,547
HUD-Twenty-Five:						
Administrative project costs	5,737	5,737	-	5,737	-	-
Other project costs	101,222	101,222	-	101,222	-	-
HOME program grant	1,424,913	1,288,741	135,087	1,423,828	-	1,085
Rehabilitation	274,949	230,988	8,235	239,223	-	35,726
Section 108 debt service	3,123	-	3,123	3,123	-	-
Total HUD-Twenty-Five	1,809,944	1,626,688	146,445	1,773,133	-	36,811
HUD-Twenty-Six:						
Administrative project costs	7,580	7,582	-	7,582	-	(2)
Other project costs	160,011	156,264	3,746	160,010	-	1
HOME program grant	1,163,493	986,732	62,006	1,048,738	-	114,755
Rehabilitation	75,361	75,361	-	75,361	-	-
Environmental grants	96,580	91,328	-	91,328	-	5,252
Finance grant	15,313	15,312	-	15,312	-	1
Section 108 debt service	347,090	347,090	-	347,090	-	-
Total HUD-Twenty-Six	1,865,428	1,679,669	65,752	1,745,421	-	120,007
HUD-Twenty-Seven:						
Other project costs	56,312	36,602	19,710	56,312	-	-
HOME program grant	1,284,093	738,357	54,504	792,861	-	491,232
Rehabilitation	93,461	47,946	45,515	93,461	-	-
Environmental grants	118,079	118,079	-	118,079	-	-
Finance grant	28,164	28,164	-	28,164	-	-
Section 108 debt service	350,229	350,229	-	350,229	-	-
Total HUD-Twenty-Seven	1,930,338	1,319,377	119,729	1,439,106	-	491,232

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Community Development Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2005

Schedule P-10, Continued

	Appropriations	Expenditures - Public Welfare		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Years	Current Year				
HUD-Twenty-Eight:							
Other project costs	\$ 129,334	67,645	23,102	90,747	38,587	-	38,587
HOME program grant	1,140,498	22,356	183,539	205,895	934,603	-	934,603
Rehabilitation	60,416	46,134	7,697	53,831	6,585	-	6,585
Environmental grants	86,973	86,973	-	86,973	-	-	-
Finance grant	22,228	22,228	-	22,228	-	-	-
Section 108 debt service	352,321	352,321	-	352,321	-	-	-
Total HUD-Twenty-Eight	1,791,770	597,657	214,338	811,995	979,775	-	979,775
HUD-Twenty-Nine:							
Administrative project costs	239,850	239,795	-	239,795	55	-	55
Other project costs	352,226	230,395	60,976	291,371	60,855	1,426	59,429
HOME program grant	697,329	127,951	251,270	379,221	318,108	-	318,108
Rehabilitation	77,086	45,575	250	45,825	31,261	-	31,261
Environmental grants	96,431	81,391	15,040	96,431	-	-	-
Finance grant	30,880	19,680	5,098	24,778	6,102	-	6,102
Fire grants	5,000	5,000	-	5,000	-	-	-
Section 108 loan program	720,000	508,133	211,867	720,000	-	-	-
Section 108 debt service	400,000	359,470	40,530	400,000	-	-	-
Total HUD-Twenty-Nine	2,618,802	1,617,390	585,031	2,202,421	416,381	1,426	414,955
HUD-Thirty:							
Administrative project costs	247,679	-	238,515	238,515	9,164	-	9,164
Other project costs	311,496	-	265,387	265,387	46,109	8,107	38,002
HOME Program Grant	811,302	-	-	811,302	811,302	-	811,302
Rehabilitation	186,379	-	47,360	47,360	139,019	-	139,019
Fire department grants	5,000	-	2,091	2,091	2,909	2,000	909
Environmental grants	136,431	-	86,542	86,542	49,889	-	49,889
Finance grant	539,424	-	22,089	22,089	517,335	-	517,335
Section 108 debt service	467,679	-	330,103	330,103	137,576	-	137,576
Total HUD-Thirty	2,705,390	-	992,087	992,087	1,713,303	10,107	1,703,196
Total expenditures and encumbrances	\$ 14,071,873	7,965,395	2,166,765	10,132,160	3,939,713	11,533	3,928,180

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-11

Interagency Consortium Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2005

	Revised Budget	Expenditures		Unexpended Balance	Unencumbered Balance
		Operating	Capital Outlay		
EXPENDITURES					
Public welfare:					
Contract services	\$ 3,600,000	3,272,925	-	3,272,925	1,245
Administrative expenses	230,074	197,358	-	197,358	-
Total expenditures and encumbrances	\$ 3,830,074	3,470,283	-	3,470,283	1,245
				359,791	325,830
					32,716
				359,791	358,546

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-12

Community Corrections Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2005

	Revised Budget	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay				
EXPENDITURES							
General government:							
Diversion services	\$ 196,087	182,972	-	182,972	13,115	-	13,115
Pre-trial services	290,066	280,273	-	280,273	9,793	-	9,793
Total expenditures and encumbrances	\$ 486,153	463,245	-	463,245	22,908	-	22,908

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-13

Fee Supported Activities Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2005

	Revised Budget	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay				
EXPENDITURES - Public safety	\$ 573,062	168,100	-	168,100	404,962	3,581	401,381
Total expenditures and encumbrances	\$ 573,062	168,100	-	168,100	404,962	3,581	401,381

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-14

Tax Increment Financing Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2005

	Revised Budget	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay				
EXPENDITURES - General Government	\$ 342,127	76,378	-	76,378	265,749	7,000	258,749
Total expenditures and encumbrances	\$ 342,127	76,378	-	76,378	265,749	7,000	258,749

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-15

Grants Fund

Schedule of Expenditures and Encumbrances - Budget and Actual
Year Ended June 30, 2005

	Revised Budget	Expenditures		Total Expenditures	Unexpended Balance	Encumbrances	Unencumbered Balance
		Prior Year	Current Year				
EXPENDITURES							
General government	\$ 3,328,492	1,639,563	1,000,929	2,640,492	688,000	3,262	684,738
Public safety	12,403,997	7,711,738	1,689,167	9,400,905	3,003,092	202,899	2,800,193
Parks	510,513	232,690	266,566	499,256	11,257	6,050	5,207
Public welfare	5,523,295	1,531,665	1,324,982	2,856,647	2,666,648	12,217	2,654,431
Total expenditures and encumbrances	\$ 21,766,297	11,115,656	4,281,644	15,397,300	6,368,997	224,428	6,144,569

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-16

E-911 Operations Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2005

	Revised Budget	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay				
EXPENDITURES - Public safety	\$ 3,601,140	3,155,376	-	3,155,376	445,764	81,769	363,995
Total expenditures and encumbrances	\$ 3,601,140	3,155,376	-	3,155,376	445,764	81,769	363,995

CITY OF CHESAPEAKE, VIRGINIA

Schedule P-17

Juvenile Detention Home Fund
 Schedule of Expenditures and Encumbrances - Budget and Actual
 Year Ended June 30, 2005

	Revised Budget	Expenditures		Total	Unexpended Balance	Encumbrances	Unencumbered Balance
		Operating	Capital Outlay				
EXPENDITURES - General government	\$ 6,396,704	6,408,192	-	6,408,192	(11,488)	-	(11,488)
Total expenditures and encumbrances	\$ 6,396,704	6,408,192	-	6,408,192	(11,488)	-	(11,488)

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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, 2005

		Northwest River Park	Jordan Bridge	Recreation	Total Nonmajor Enterprise Funds
ASSETS					
Current assets:					
Cash and temporary investments	\$	371,003	996,638	760,031	2,127,672
Receivables:					
Accounts		826	15,439	8,922	25,187
Interest		-	2,811	-	2,811
Inventory of materials and supplies		1,873	-	4,117	5,990
Total current assets		373,702	1,014,888	773,070	2,161,660
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	382,762	563,992
Infrastructure		-	5,050,444	-	5,050,444
Less accumulated depreciation		(59,914)	(3,321,150)	(234,516)	(3,615,580)
Total capital assets, net of accumulated depreciation		62,422	2,265,299	159,068	2,486,789
Total noncurrent assets		62,422	2,265,299	159,068	2,486,789
Total assets	\$	436,124	3,280,187	932,138	4,648,449
LIABILITIES AND NET ASSETS					
Liabilities					
Current liabilities:					
Accounts payable	\$	1,447	10,475	9,959	21,881
Accrued expenses and other liabilities		73	10,758	1,933	12,764
Deferred revenues		10,146	-	76,598	86,744
Current portion of accrued vacation, sick pay, and overtime leave		1,253	17,187	2,504	20,944
Total current liabilities		12,919	38,420	90,994	142,333
Noncurrent liabilities:					
Accrued vacation, sick pay, and overtime leave		1,951	26,772	3,899	32,622
Total noncurrent liabilities		1,951	26,772	3,899	32,622
Total liabilities		14,870	65,192	94,893	174,955
Net Assets					
Invested in capital assets, net of related debt		62,422	2,265,299	159,068	2,486,789
Unrestricted		358,832	949,696	678,177	1,986,705
Total net assets		421,254	3,214,995	837,245	4,473,494
Total liabilities and net assets	\$	436,124	3,280,187	932,138	4,648,449

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, 2005

	Northwest River Park	Jordan Bridge	Recreation	Total Nonmajor Enterprise Funds
OPERATING REVENUES				
Charges for services:				
Tolls and tickets	-	1,348,623	-	1,348,623
Recreation fees	138,998	-	630,819	769,817
Other	-	300,394	-	300,394
Total operating revenues	138,998	1,649,017	630,819	2,418,834
OPERATING EXPENSES				
Purchases for resale	7,949	-	24,952	32,901
Other salaries and wages	37,905	493,486	117,773	649,164
Other fringe benefits	11,615	168,006	26,715	206,336
Other repairs and supplies	12,736	18,221	49,259	80,216
Equipment rental	-	-	1,929	1,929
Other contractual services	308	-	45,447	45,755
Depreciation and amortization	3,690	165,551	68,485	237,726
Recreation	-	-	244,538	244,538
Other	29,564	265,766	50,273	345,603
Total operating expenses	103,767	1,111,030	629,371	1,844,168
Operating income	35,231	537,987	1,448	574,666
NONOPERATING REVENUE				
Investment income	5,481	29,704	11,226	46,411
Income before transfers	40,712	567,691	12,674	621,077
Transfers out	(5,481)	(14,715)	(11,226)	(31,422)
Increase in net assets	35,231	552,976	1,448	589,655
Total net assets - beginning	386,023	2,662,019	835,797	3,883,839
Total net assets - ending	\$ 421,254	3,214,995	837,245	4,473,494

CITY OF CHESAPEAKE, VIRGINIA

Schedule Q-3

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

	Northwest River Park	Jordan Bridge	Recreation	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 138,482	1,642,416	670,509	2,451,407
Payments to suppliers	(51,253)	(296,498)	(433,963)	(781,714)
Payments to employees	(49,582)	(662,349)	(142,581)	(854,512)
Net cash provided by operating activities	37,647	683,569	93,965	815,181
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	-	-	(10,354)	(10,354)
Net cash used in capital and related financing activities	-	-	(10,354)	(10,354)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income	5,481	27,242	11,226	43,949
Transfers out	(5,481)	(14,715)	(11,226)	(31,422)
Net cash provided by investing activities	-	12,527	-	12,527
Net increase in cash and temporary investments	37,647	696,096	83,611	817,354
Cash and temporary investments beginning of year	333,356	300,542	676,420	1,310,318
Cash and temporary investments end of year	\$ 371,003	996,638	760,031	2,127,672

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

Year Ended June 30, 2005

Schedule Q-3, Continued

	Northwest River Park	Jordan Bridge	Recreation	Total Nonmajor Enterprise Funds
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 35,231	537,987	1,448	574,666
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	3,690	165,551	68,485	237,726
Change in assets and liabilities increasing (decreasing) cash and temporary investments:				
Receivables	(199)	(6,601)	538	(6,262)
Inventory of materials and supplies	342	-	4,443	4,785
Prepaid expenses and other assets	-	-	918	918
Accounts payable	(1,038)	(12,511)	(22,926)	(36,475)
Deferred revenues	(317)	-	39,152	38,835
Accrued expenses and other liabilities	(304)	(1,236)	1,108	(432)
Accrued vacation and sick pay	242	379	799	1,420
Total adjustments	2,416	145,582	92,517	240,515
Net cash provided by operating activities	\$ 37,647	683,569	93,965	815,181

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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, 2005

	Information Technology	City Garage	Self- Insurance	Total
ASSETS				
Current assets:				
Cash and temporary investments	\$ 1,051,679	3,964,257	15,879,267	20,895,203
Receivables:				
Accounts	-	159,808	-	159,808
Interest	-	-	45,047	45,047
Inventory of materials and supplies	-	346,434	-	346,434
Prepaid expenses	-	-	798,945	798,945
Total current assets	1,051,679	4,470,499	16,723,259	22,245,437
Noncurrent assets:				
Capital assets:				
Construction in progress	123,960	-	-	123,960
Buildings	-	117,649	20,930	138,579
Improvements other than buildings	228,124	177,814	-	405,938
Equipment and vehicles	3,747,968	56,392,473	56,136	60,196,577
Less accumulated depreciation	(2,701,018)	(36,675,974)	(65,224)	(39,442,216)
Total capital assets, net of accumulated depreciation	1,399,034	20,011,962	11,842	21,422,838
Total noncurrent assets	1,399,034	20,011,962	11,842	21,422,838
Total assets	\$ 2,450,713	24,482,461	16,735,101	43,668,275
LIABILITIES AND NET ASSETS				
Liabilities				
Current liabilities:				
Accounts payable	\$ 246,512	576,330	614	823,456
Current portion of obligations under capital leases	384,604	2,233,317	-	2,617,921
Current portion of notes payable	48,578	-	-	48,578
Current portion of accrued vacation, sick pay, and overtime leave	118,124	48,705	4,980	171,809
Current portion of liability for self-insurance losses	-	-	4,199,290	4,199,290
Total current liabilities	797,818	2,858,352	4,204,884	7,861,054
Noncurrent liabilities:				
Obligations under capital leases	1,003,991	3,400,626	-	4,404,617
Accrued vacation, sick pay, and overtime leave	183,986	75,859	7,756	267,601
Liability for self-insurance losses	-	-	16,797,158	16,797,158
Total noncurrent liabilities	1,187,977	3,476,485	16,804,914	21,469,376
Total liabilities	1,985,795	6,334,837	21,009,798	29,330,430
Net Assets				
Invested in capital assets, net of related debt	465,427	14,378,019	11,842	14,855,288
Unrestricted	(509)	3,769,605	(4,286,539)	(517,443)
Total net assets	464,918	18,147,624	(4,274,697)	14,337,845
Total liabilities and net assets	\$ 2,450,713	24,482,461	16,735,101	43,668,275

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, 2005

	Information Technology	City Garage	Self- Insurance	Total
OPERATING REVENUES				
Billings to departments	\$ 7,365,182	11,713,298	5,350,071	24,428,551
Other	-	6,545	-	6,545
Total operating revenues	7,365,182	11,719,843	5,350,071	24,435,096
OPERATING EXPENSES				
Cost of materials billed	-	4,360,655	-	4,360,655
Other salaries and wages	2,764,967	1,463,756	166,903	4,395,626
Other fringe benefits	911,206	600,087	60,522	1,571,815
Self-insurance losses	-	-	4,401,289	4,401,289
Indemnity and medical claims	-	-	2,395,275	2,395,275
Other repairs and supplies	2,008,698	1,150,660	8,260	3,167,618
Equipment rental	418,041	5,335	1,948	425,324
Other contractual services	431,879	313,376	63,545	808,800
Depreciation and amortization	397,494	4,223,212	528	4,621,234
Insurance premiums	-	88,588	1,055,590	1,144,178
Other	374,729	348,048	33,960	756,737
Total operating expenses	7,307,014	12,553,717	8,187,820	28,048,551
Operating income (loss)	58,168	(833,874)	(2,837,749)	(3,613,455)
NONOPERATING REVENUES (EXPENSES)				
Investment income	15,536	58,593	313,433	387,562
Interest expense	(54,895)	(220,067)	-	(274,962)
Loss on sale of equipment	-	(118,145)	-	(118,145)
Total nonoperating revenues (expenses)	(39,359)	(279,619)	313,433	(5,545)
Income (loss) before transfers	18,809	(1,113,493)	(2,524,316)	(3,619,000)
Transfers in	46,896	1,495,255	17,690	1,559,841
Transfers out	(115,536)	(58,593)	-	(174,129)
Increase (decrease) in net assets	(49,831)	323,169	(2,506,626)	(2,233,288)
Total net assets - beginning	514,749	17,824,455	(1,768,071)	16,571,133
Total net assets - ending	\$ 464,918	18,147,624	(4,274,697)	14,337,845

CITY OF CHESAPEAKE, VIRGINIA

Combining Statement of Cash Flows
Internal Service Funds
Year Ended June 30, 2005

Schedule R-3

	Information Technology	City Garage	Self- Insurance	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 7,365,182	11,757,947	5,350,071	24,473,200
Payments to suppliers	(3,181,288)	(6,278,999)	(6,382,904)	(15,843,191)
Payments to employees	(3,657,284)	(2,074,476)	(224,653)	(5,956,413)
Net cash provided by (used in) operating activities	526,610	3,404,472	(1,257,486)	2,673,596
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	46,896	-	17,690	64,586
Transfers out	(100,000)	-	-	(100,000)
Repayments of obligations under capital leases for equipment not capitalized	(301,412)	-	-	(301,412)
Net cash provided by (used in) noncapital financing activities	(354,516)	-	17,690	(336,826)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Transfers in	-	1,495,255	-	1,495,255
Acquisition of capital assets	(62,112)	(2,324,478)	-	(2,386,590)
Interest paid	(54,895)	(220,067)	-	(274,962)
Repayments of obligations under capital leases	(51,408)	(2,270,366)	-	(2,321,774)
Repayments of notes payable	(73,271)	-	-	(73,271)
Net cash used in capital and related financing activities	(241,686)	(3,319,656)	-	(3,561,342)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income	15,536	58,593	295,144	369,273
Transfers out	(15,536)	(58,593)	-	(74,129)
Net cash provided by investing activities	-	-	295,144	295,144
Net increase (decrease) in cash and temporary investments	(69,592)	84,816	(944,652)	(929,428)
Cash and temporary investments beginning of year	1,121,271	3,879,441	16,823,919	21,824,631
Cash and temporary investments end of year	\$ 1,051,679	3,964,257	15,879,267	20,895,203

(Continued)

CITY OF CHESAPEAKE, VIRGINIA

Schedule R-3, Continued

Combining Statement of Cash Flows

Internal Service Funds

Year Ended June 30, 2005

	Information Technology	City Garage	Self- Insurance	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 58,168	(833,874)	(2,837,749)	(3,613,455)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	397,494	4,223,212	528	4,621,234
Change in assets and liabilities increasing (decreasing) cash and temporary investments:				
Receivables	-	38,104	-	38,104
Prepaid expenses	-	-	(71,081)	(71,081)
Inventory of materials and supplies	-	(107,579)	-	(107,579)
Accounts payable	52,059	95,242	(1,403)	145,898
Accrued expenses and other liabilities	-	-	1,649,447	1,649,447
Accrued vacation, sick pay, and overtime leave	18,889	(10,633)	2,772	11,028
Total adjustments	468,442	4,238,346	1,580,263	6,287,051
Net cash provided by (used in) operating activities	\$ 526,610	3,404,472	(1,257,486)	2,673,596

Supplemental information on significant noncash transactions:

Borrowing under capital leases:	
Information Technology Fund	\$ 185,993
City Garage Fund	1,562,035

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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, 2005

	Balances at July 1, 2004	Additions	Deductions	Balances at June 30, 2005
Assets				
Cash and temporary investments	\$ 12,314	130,071	121,050	21,335
Total assets	\$ 12,314	130,071	121,050	21,335
Liabilities				
Due to children under foster care	\$ 12,314	130,071	121,050	21,335
Total liabilities	\$ 12,314	130,071	121,050	21,335

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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, 2005

	Chesapeake Mosquito Control Commission	Chesapeake Port Authority
ASSETS		
Current assets:		
Cash and temporary investments	\$ 3,836,323	4,090
Inventory of materials and supplies	373,492	-
Total current assets	4,209,815	4,090
Total assets	\$ 4,209,815	4,090
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities:		
Accounts payable	\$ 88,882	-
Total current liabilities	88,882	-
Noncurrent liabilities:		
Due to primary government	-	944,407
Total noncurrent liabilities	-	944,407
Total liabilities	88,882	944,407
Fund Balance		
Reserved:		
Encumbrances	42,529	-
Inventory	373,492	-
Unreserved	3,704,912	-
Net Assets		
Unrestricted	-	(940,317)
Total fund balance and net assets	4,120,933	(940,317)
Total liabilities, fund balance, and net assets	\$ 4,209,815	4,090
Reconciliation to Net Assets:		
Total fund balance	\$ 4,120,933	
Capital assets - net of depreciation	1,908,341	
Net Assets	\$ 6,029,274	

CITY OF CHESAPEAKE, VIRGINIA

Schedule T-2

Statement of Revenues, Expenditures, and Changes in Fund Balance
 Other Component Units
 Year Ended June 30, 2005

	Chesapeake Mosquito Control Commission
REVENUES	
Property taxes	\$ 4,200,529
Investment income	68,330
Other	1,700
Total revenues	4,270,559
EXPENDITURES	
Other salaries and wages	1,741,617
Other fringe benefits	701,378
Other repairs and supplies	674,830
Insurance premiums	235,521
Capital outlay	295,772
Other	228,347
Total expenditures	3,877,465
Excess of revenues over expenditures	393,094
Fund balance - beginning	3,600,643
Increase in fund balance reserved for inventory	127,196
Fund balance - ending	\$ 4,120,933

Reconciliation to Change in Net Assets:

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

Change in fund balance	\$ 393,094
Increase in inventory	127,196
Depreciation expense	(151,850)
Capital outlay expenditures	295,772
Change in Net Assets	\$ 664,212

CITY OF CHESAPEAKE, VIRGINIA**Schedule T-3**

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

Other Component Units

Year Ended June 30, 2005

	Chesapeake Port Authority
OPERATING EXPENSES	
General and administrative	\$ 2,000
Total operating expenses	2,000
Operating loss	(2,000)
NONOPERATING REVENUES	
Investment income	17
Appropriations from the City	2,000
Total nonoperating revenues	2,017
Increase in net assets	17
Net assets - beginning	(940,334)
Net assets - ending	\$ (940,317)

CITY OF CHESAPEAKE, VIRGINIA*Schedule T-4*Statement of Cash Flows
Other Component Units
Year Ended June 30, 2005

	Chesapeake Port Authority
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to suppliers	\$ (2,000)
Net cash used in operating activities	(2,000)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Reimbursement from City	2,000
Net cash provided by noncapital financing activities	2,000
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	17
Net cash provided by investing activities	17
Net increase in cash and temporary investments	17
Cash and temporary investments beginning of year	4,073
Cash and temporary investments end of year	\$ 4,090
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (2,000)
Net cash used in operating activities	\$ (2,000)

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STATISTICAL SECTION



CITY OF CHESAPEAKE, VIRGINIA

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

Table 1

Fiscal Year	General Government (3)	Public Safety	Public Welfare	Education (4)	Public Works	Debt Service	Total Expenditures
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
2005	104,401,169	71,131,839	43,568,516	351,232,433	41,022,326	46,615,486	657,971,769

(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
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
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

(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
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
2005:							
Payroll	\$ 47,226,042	43,250,042	13,613,792	219,184,613	12,368,469	-	335,642,958
Capital Outlay	1,656,878	805,745	6,210,535	6,372,166	2,152,959	-	17,198,283
Other Expenditures	55,518,249	27,076,052	23,744,189	125,675,654	26,500,898	46,615,486	305,130,528
Total	\$ 104,401,169	71,131,839	43,568,516	351,232,433	41,022,326	46,615,486	657,971,769

(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.

CITY OF CHESAPEAKE, VIRGINIA

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

Fiscal Year	Licenses and Permits										
	Taxes	Inter-Governmental (2)	Charges for Services	Fines and Forfeitures	Interest	Miscellaneous	Total				
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			
2005	340,633,362	2,900,145	312,303,349	19,874,106	2,929,501	2,480,511	5,332,387	686,453,361			

(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
2005	\$ 205,687,656	7,287,354	73,136	677,969	213,726,115

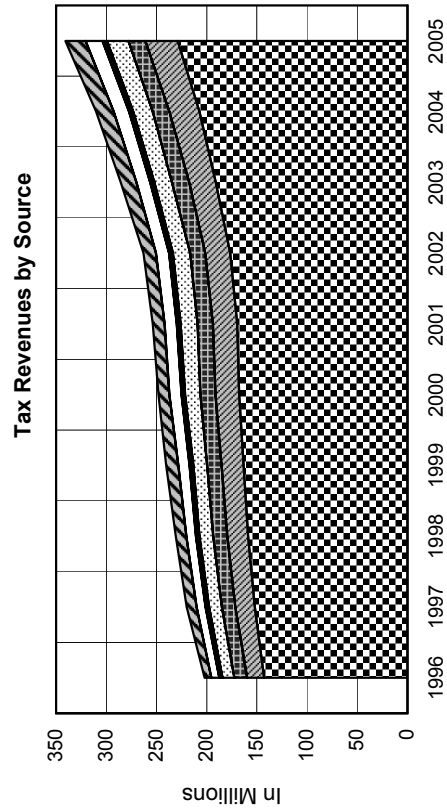
Table 4

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
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
2005	229,016,091	31,989,281	16,941,993	21,461,924	4,465,961	16,684,210	20,073,902	340,633,362

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



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
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
2005	17,602,778	5.22%	182,578,999	54.15%	1,996,416	0.59%	134,966,624	40.03%	337,144,817

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

(2) Impact Funds (Public Law 874) for 1996 through 2005 are as follows:

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
2000		1,495,156	2005		3,377,186

(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

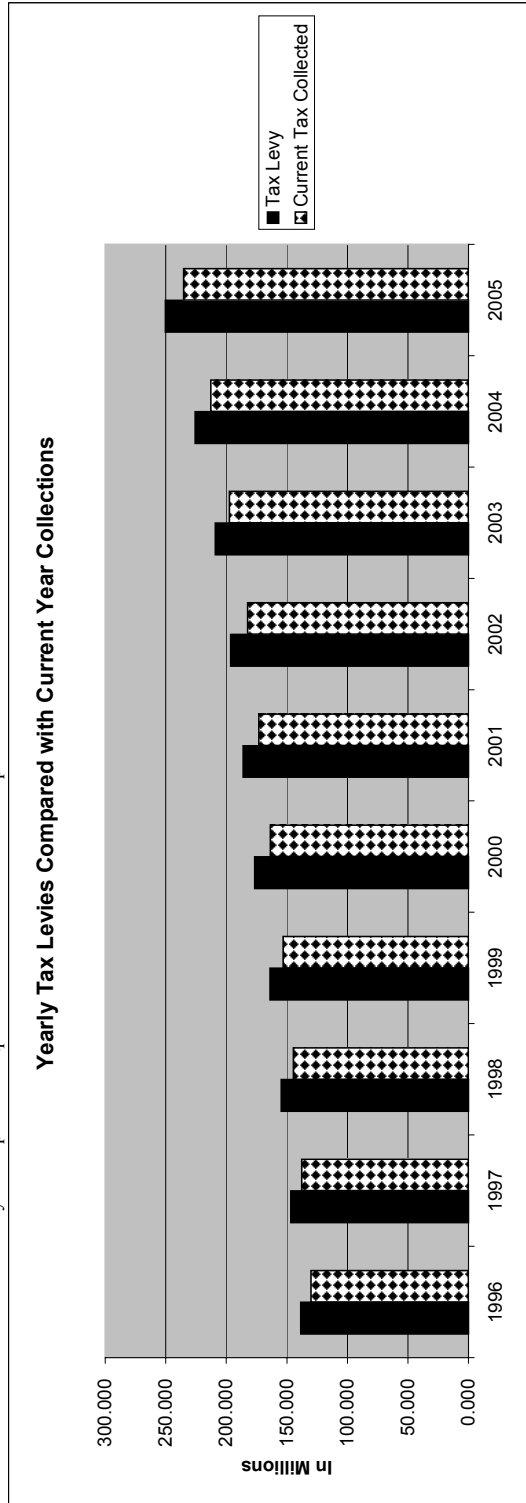
Property Tax Levies and Collections
Last Ten Fiscal Years - Unaudited

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
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%
2005	250,428,244	235,274,576	93.95%	19,255,212	254,529,788	101.64%	9,574,391	3.82%

(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.



CITY OF CHESAPEAKE, VIRGINIA

Table 7

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	Assessed Value	Estimated Actual Value
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%	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%	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%	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%	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%	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%	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%	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%	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%	100.00%
2005	14,713,238,641	14,713,238,641	1,583,230,288	1,583,230,288	16,296,468,929	16,296,468,929	100.00%	100.00%

CITY OF CHESAPEAKE, VIRGINIA

Property Tax Rates *
Last Ten Fiscal Years - Unaudited

Table 8

Fiscal Year	REAL PROPERTY (1) (2)	PERSONAL PROPERTY (3) (4)										
		Motor Vehicles (5) (8)	Motor Carriers (6)	Recreation Vehicles	Handicap Vehicle (6) (7)	Boats	Business	Mobile Homes (8)	Machinery & Tools	Farm	Airplanes	
1996	1.26	4.00	3.12	1.50		1.50	4.00	1.26	3.12	4.00	4.00	4.00
1997	1.26	4.00	3.12	1.50		1.50	4.00	1.26	3.12	4.00	4.00	4.00
1998	1.26	4.00	3.12	1.50		1.50	4.00	1.26	3.12	4.00	4.00	0.50
1999	1.26	4.00	3.12	1.50		1.50	4.00	1.26	3.12	4.00	4.00	0.50
2000	1.26	4.00	3.12	1.50		1.50	4.00	1.26	3.12	4.00	4.00	0.50
2001	1.26	4.00	3.12	1.50		1.50	4.00	1.26	3.12	4.00	4.00	0.50
2002	1.26	4.00	3.12	1.50		1.50	4.00	1.26	3.12	4.00	4.00	0.50
2003	1.26	4.00	3.12	1.50		1.50	4.00	1.26	3.12	4.00	4.00	0.50
2004	1.26	4.00	3.12	1.50		1.50	4.00	1.26	3.12	4.00	4.00	0.50
2005	1.26	4.00	3.12	1.50		1.50	4.00	1.26	3.12	4.00	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 1998.
- (7) Tax rate on Disabled Veteran Motor Vehicle and Handicap Vehicle changed effective on January 1, 1999.
- (8) 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	Recreation Vehicles	Disabled Vets (2)	Handicap Vehicle (3)	Boats	Business	Mobile Homes	Machinery & Tools	Farm	Airplanes (4)
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
2005	177,090,767	49,151,769	394,098	335,302	-	-	374,285	8,789,092	184,361	2,699,724	111,666	31,450

(1) Public service corporation property is not included.

(2) 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.

(3) 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.

(4) 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
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
2005	214,759	16,296,468,929	441,709,976	22,935,812	72,016,558	346,757,606	2.13%	1,614.64

(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, 2005

Assessed valuation - real estate		\$	14,713,238,641 *
Legal debt limit:			
10% of assessed valuation		\$	1,471,323,864
Amount of debt applicable to legal debt limit:			
Total bonded debt	526,674,976		
Plus: Long-term payables	623,578		
Less: Self-supporting debt	(84,965,000)		
Amount available for repayment	(22,935,812)		419,397,742
Legal debt margin available		\$	1,051,926,122
Percent of:			
Legal debt margin outstanding	28.5%		
Legal debt margin available	71.5%		
	100.0%		
Summary of assessed valuation:			
Public service real estate		\$	878,022,470
Other real estate - City			13,835,216,171
		\$	14,713,238,641

*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."

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
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%
2005	657,971,769	42,781,735	6.50%

(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		
				Total (2)			
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
2005	39,725,069	25,652,449	14,072,620	4,685,766	6,099,103	10,784,869	1.30

(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
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%
2005	422,035,831	56,134,812	13.30%

(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)			
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	30,401	38,788	3.4%
2004	210,549	n/a	39,204	3.8%
2005	214,759	n/a	39,689	3.7%

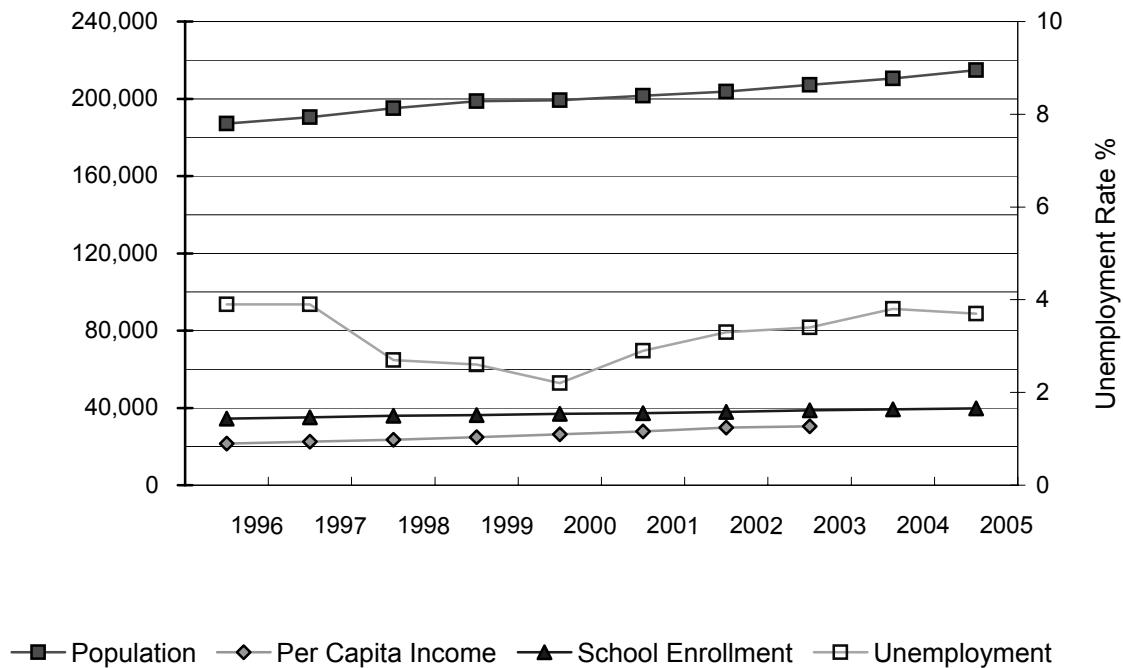


Table 16

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
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
2005	116	100,944,000	3,118	348,310,400	3,234	449,254,400	3,328,918,435	10,506,297,736	1,531,618,400

* Estimated Actual Value

(1) Source: Real Estate Assessor

(2) FDIC

CITY OF CHESAPEAKE, VIRGINIA

Table 17

Principal Taxpayers
June 30, 2005 - Unaudited

Name of Business	Type of Business	Real Property Assessed Value	% of Total Assessed Value (1)
Dominion Virginia Power	Electric Utility	\$ 585,382,845	3.98%
Greenbrier Mall Partners LP	Shopping Mall & Vacant Land	95,505,500	0.65%
Chesapeake Mall LLC	Shopping Mall	79,976,600	0.54%
CP Venture Two LLC	Shopping Center	48,721,400	0.33%
Woodlake Co Limited Partnership	Apartment Complex	44,346,800	0.30%
Cove Land LLC	Apartment Complex	36,850,000	0.25%
JLP-Chesapeake LLC	Retail and Vacant Land	36,566,400	0.25%
Crossways Associates LLC	Office Bldgs. & Shopping Center	30,698,800	0.21%
CPRE-1 Bay LLC	Apartment Complex	28,129,600	0.19%
Dollar Tree Distribution, Inc.	Distribution Center	27,371,400	0.19%
TOTAL		\$ 1,013,549,345	6.89%

(1) Total assessed valuation of real estate for FY 2005 was \$14,713,238,641 which includes Public Service Corporation property, as of June 30, 2005.

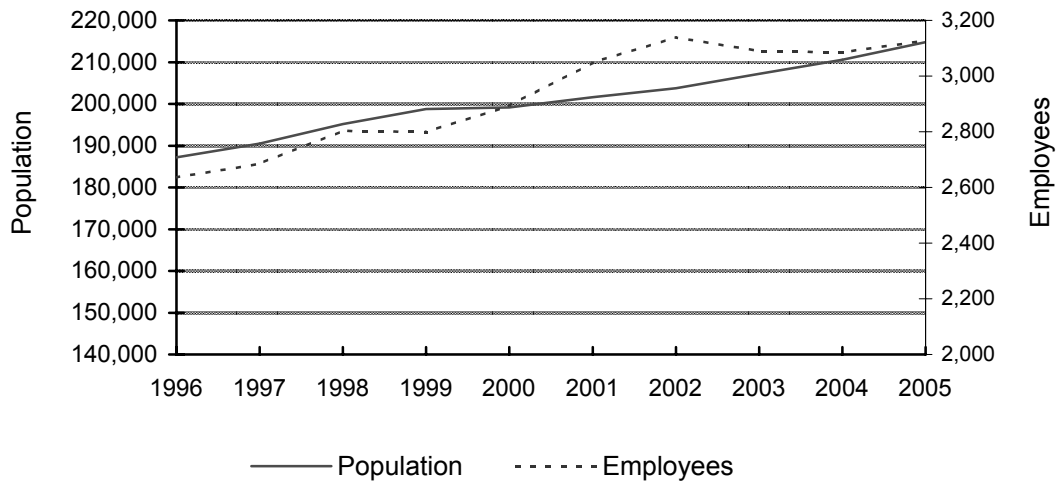
Source: Real Estate Assessor

Municipal Employment Statistics
Last Ten Fiscal Years - Unaudited

Fiscal Year	Population	Employees	Employees Per 1,000 Population
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
2005	214,759	3,128	14.6

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) and (2)
Last Ten Fiscal Years - Unaudited

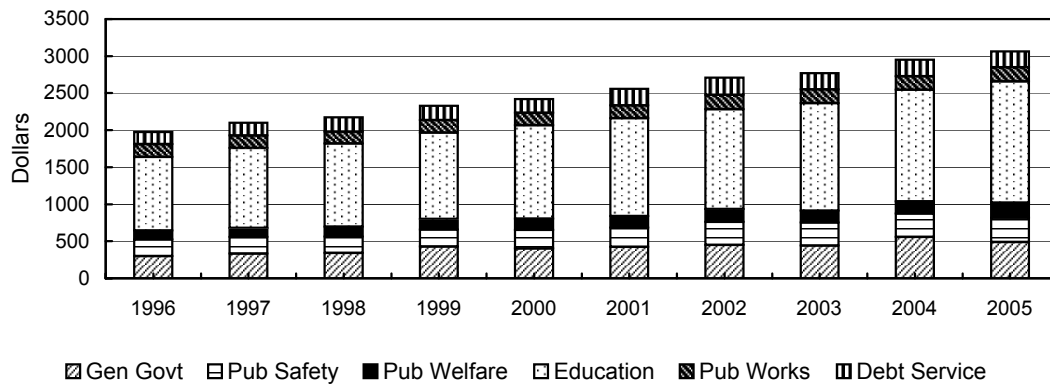
Fiscal Year	Population (3)	General Gov't	Public Safety	Public Welfare	Education	Public Works	Debt Service	Total
1996	187,204	\$ 298	224	120	996	172	164	1,974
1997	190,469	331	226	120	1,081	169	175	2,102
1998	195,149	342	221	132	1,122	164	192	2,173
1999	198,747	427	231	140	1,170	167	193	2,328
2000	199,184	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
2005	214,759	486	331	203	1,635	191	217	3,063

(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

(3) Planning Department estimate.

Per Capita Expenditures

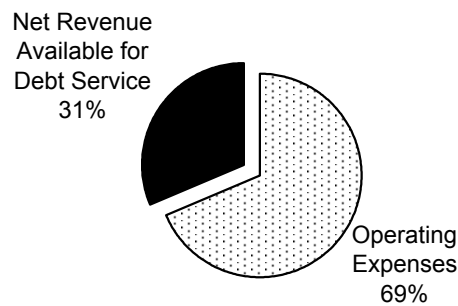


Revenue Bond Coverage - Water and Sewer Systems
Last Ten Fiscal Years - Unaudited

Fiscal Year	Gross Revenue (1)	Operating Expenses (2)	Net Revenue Available for		Coverage (3)
			Debt Service	Total	
1996	\$ 25,090,438	15,737,597	9,352,841	1,934,985	4.83
1997	25,926,744	16,174,539	9,752,205	2,937,559	3.32
1998	26,184,412	16,960,139	9,224,273	2,507,307	3.68
1999	27,783,516	18,585,124	9,198,392	1,796,619	5.12
2000	26,836,455	20,353,662	6,482,793	1,792,698	3.62
2001	27,415,623	21,334,342	6,081,281	1,797,161	3.38
2002	32,748,966	23,156,628	9,592,338	1,792,270	5.35
2003	32,372,879	23,536,100	8,836,779	1,790,046	4.94
2004	37,595,984	23,697,902	13,898,082	667,674	20.82
2005	37,354,500	25,652,449	11,702,051	384,228	30.46

- (1) Total revenues exclusive of interest and less fifty percent (50%) of connection fees.
- (2) Total operating expenses exclusive of depreciation.
- (3) As of June 30, 2005 all revenue bonds for Public Utilities have been refunded as general obligation bonds, however, the expectation is for the Public Utility revenues to cover the debt service payments. It is anticipated that future Public Utility issuances will be revenue bonds.

For Year Ended June 30, 2005



CITY OF CHESAPEAKE, VIRGINIA

Table 21

Computation of Direct and Overlapping Bonded Debt

General Obligation Bonds

June 30, 2005 - Unaudited

Jurisdiction	Net General Obligation Bonded Debt Outstanding	Percentage Applicable To Government	Amount Applicable To Government
Direct:			
City of Chesapeake	\$ 369,693,418 (1)	100.00%	\$ 369,693,418
Overlapping:			
None	-		-
TOTAL	\$ 369,693,418		\$ 369,693,418

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

CITY OF CHESAPEAKE, VIRGINIA

Table 22

Miscellaneous Statistics
June 30, 2005

Date of Incorporation	January 1963
Form of Government	Council-Manager
Number of registered voters	126,183
Number of Employees (Full Time)	3,128
Area in square miles	353
Miles of streets	2,257
Number of street lights	21,745
Culture and Recreation:	
Community centers	7
Specialized centers	4
Parks and play areas	67
Park acreage	2,043
Athletic fields and tennis courts	211
Public Safety:	
Number of Fire Stations	15
Number of Fire Personnel and Officers	419
Number of calls answered for Fire Protection Services	23,460
Number of Police Stations	5
Number of Police Personnel and Officers	375
Number of Patrol Units	208
Number of calls for Police Service	135,054
Part I Law Violations	9,236
Number of Adult Criminal Charges	12,890
Number of Physical & Traffic arrests	72,624
Number of DUI arrests	1,243
Water & Sewer:	
Miles of sanitary sewers	1,003
Sewage pumping stations	253
Number of service connections	57,160
Miles of water mains	786
Number of service connections	59,008
Number of fire hydrants	4,522
Daily average consumption in gallons (in mgd)	16
Daily average water provided by Chesapeake (in mgd)	10
Education:	
Number of elementary schools	28
Number of elementary school instructors	1,622
Number of secondary schools	16
Number of secondary school instructors	1,107
Number of educational centers	3

COMPLIANCE SECTION



CITY OF CHESAPEAKE, VIRGINIA
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2005

Schedule U-1

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalogue Number	Expenditures
Department of Agriculture:		
Direct payments:		
Summer Food Service Program for Children	10.559	\$ 82,341
Pass-through payments:		
Department of Social Services:		
State Administrative Matching Grants for Food Stamp Program	10.561	1,383,061
Department of Education:		
School Breakfast Program	10.553	828,558
National School Lunch Program	10.555	3,588,828
Department of Agriculture and Consumer Services:		
Food Distribution - commodities value - Schools' Food Services	10.555	924,153
Food Distribution - commodities value - Detention Home	10.555	11,478
Department of Corrections:		
National School Breakfast and Lunch Programs	10.553	155,364
		6,973,783
Department of Housing and Urban Development:		
Direct payments:		
Community Development Block Grant Program:		
Program year 2000	14.218	11,358
Program year 2001	14.218	3,752
Program year 2002	14.218	115,473
Program year 2003	14.218	44,209
Program Year 2004	14.218	181,850
Program Year 2005	14.218	1,296,695
Section 108 Loan Program	14.248	211,867
Brownfields Economic Development Initiative	14.246	37,595
Shelter Plus / McKinney-Vento Act	14.238	75,082
HOME Investment Partnerships Program	14.239	729,790
		2,707,671
Department of Health and Human Services:		
Direct payments:		
Medical Reserve Corps Small Grant Program	93.008	62,324
Pass-through payments:		
Department of Mental Health, Mental Retardation and Substance Abuse:		
Block Grants for Community Mental Health Services	93.958	144,284
Block Grants for Prevention and Treatment of Substance Abuse	93.959	912,886
Department of Social Services:		
Promoting Safe and Stable Families	93.556	99,915
Temporary Assistance for Needy Families	93.558	1,276,255
Refugee and Entrant Assistance - State Administered Program	93.566	1,233
Low Income Home Energy Assistance	93.568	42,794
Payments to States for Child Care Assistance	93.575	1,480,165
Child Care & Development Fund	93.596	1,020,120
Foster Care-Title IV-E	93.658	2,291,798
Adoption Assistance	93.659	308,379
Social Services Block Grant	93.667	888,092
Respite Care for Foster Families	93.667	507
Independent Living	93.674	9,979
Medical Assistance Program (Medical: Title XIX)	93.778	762,979
Department of Education: Medical Title XIX	93.778	76,410
Division of Child Support Enforcement:		
Child Support Dead File	93.564	154,678
		9,532,798

(Continued)

CITY OF CHESAPEAKE, VIRGINIA
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2005

Schedule U-1, Continued

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalogue Number	Expenditures
Institute of Museum and Library Services:		
Pass-through payments:		
Virginia State Library		
Library Service and Technology Act	45.310	10,871
		10,871
Small Business Administration:		
Direct payments:		
Microenterprise Development Grants	59.050	46,765
		46,765
Department of the Interior:		
Direct payments:		
U.S. Fish and Wildlife Service - Refuge Revenue Sharing Act	15.226	53,567
U.S. Fish and Wildlife Service - Court Services Grant	15.614	20,619
		74,186
Department of Justice:		
Direct payments:		
Bulletproof Vest Partnership Program	16.607	12,072
Drug Control and System Improvement -		
Forfeited Asset Sharing Program - Drug Enforcement	16.579	-
Criminal Alien Assistance Program	16.606	26,154
Local Law Enforcement Block Grant	16.592	204,149
Office of Community Oriented Policing Services - Public Safety -		
Partnership and Community Policing Grants	16.710	37,049
Pass-through payments:		
Virginia Department of Emergency Management:		
Equipment Grant Program	16.007	12,931
Bureau of Justice Assistance:		
Juvenile Account Incentive Block Grant	16.523	150,296
Victim Witness Assistance Grant Program	16.575	255,139
Edward Byrne Grant Program	16.579	21,546
		719,337
U.S. Department of Transportation:		
Direct payments:		
Transportation Security Administration - Port Security Grants	20.420	170,000
Pass-through payments:		
Department of Motor Vehicles - Alcohol Traffic Safety and		
Drunk Driving Prevention Incentive Grants	20.600	27,328
Virginia Department of Transportation:		
The Great Dismal Swamp Corridor Master Plan	20.205	125,337
Federal Highway Administration - Planning and Construction		
Fiscal year 2002	20.205	1,354,609
Fiscal year 2003	20.205	2,887,467
Fiscal year 2004	20.205	608,673
Fiscal year 2005	20.205	926,390
Virginia Department of Emergency Management:		
Hazardous Materials Emergency Preparedness	20.703	3,730
		6,103,534
Department of Defense:		
Pass-through payments:		
Department of Education		
Payments to States in Lieu of Real Estate Taxes	12.112	31,110
		31,110

(Continued)

CITY OF CHESAPEAKE, VIRGINIA
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2005

Schedule U-1, Continued

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalogue Number	Expenditures
Department of Education:		
Direct payments:		
Impact Aid	84.041	3,377,186
Pass-through payments:		
Adult Education - State Grant Program	84.002	224,417
Education Consolidation and Improvement Act of 1981:		
Title I - Grants to local educational agencies	84.010	4,782,091
ESEA Chapter II	84.298	285,892
Special Education - Grants to states	84.027	6,211,043
Special Education - Preschool grants	84.173	329,721
Improving Teacher Quality	84.367	1,232,980
Department of Mental Health, Mental Retardation and Substance Abuse:		
Special Education - Grants for infants and families with disabilities	84.181	160,053
Vocational Education:		
Basic grants to states	84.048	574,855
Special Projects:		
Safe and Drug-Free Schools	84.186	183,571
Advanced Placement Incentive Program	84.330	1,196
Comprehensive School Reform Demonstration	84.332	121,829
Limited English	84.365	30,697
Education Thru Technology	84.318	135,332
		17,650,862
Election Assistance Commission		
Pass-through payments:		
Virginia State Board of Elections		
Help America Vote Act of 2002	90.401	1,073,977
		1,073,977
Department of Homeland Security:		
Direct payments:		
Assistance to Firefighters	97.044	8,036
Pass-through payments:		
Virginia Department of Emergency Management:		
State Domestic Preparedness Equipment Support Program	97.004	491,378
Disaster Relief Public Assistance- Hurricane Isabel	97.036	451,028
Community Emergency Response Teams	97.054	14,632
FEMA Fire , Health & Wellness	97.051	20,663
Department of Mental Health, Mental Retardation and Substance Abuse Services:		
Crisis Counseling	97.032	159,347
		1,145,084
		\$ 46,069,978

See accompanying notes to the schedule of expenditures of federal awards.

Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2005

(1) General

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

(2) Basis of Accounting

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

(3) Relationship to Financial Statements

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

Intergovernmental revenues per the basic financial statements:	
Primary government:	
General Fund	\$ 1,692,073
Capital Projects Fund	2,227,184
Special Revenue Funds:	
Virginia Public Assistance Fund	8,516,021
Community Services Fund	1,217,223
Community Development Fund	2,177,131
Grants Fund	1,628,334
Juvenile Detention Home Fund	11,478
<u> Total primary government</u>	<u>17,469,444</u>
Component unit - Public Schools:	
School Operating Fund	17,602,778
School Food Services Fund	5,341,538
<u> Total component unit - Public Schools</u>	<u>22,944,316</u>
<u> Total federal expenditures from intergovernmental revenue</u>	<u>40,413,760</u>
Federal revenue reserved for encumbrances in fund balance	(1,334,972)
Federal expenditures reported in prior years' financial statements	4,850,749
<u>Federal expenditures from fund balance</u>	<u>2,140,441</u>
<u> Total federal expenditures per the Schedule of</u>	
<u> Expenditures of Federal Awards</u>	<u>\$ 46,069,978</u>

(Continued)

Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2005

(4) Subrecipients

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

The Planning Council is the subrecipient for \$1,020,120 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, 2005

(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, 05-1 through 05-3**
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**
 - Community Development Block Program: CFDA 14.218**
 - State Administrative Matching Grants for Food Stamp Program: CFDA 10.561**
 - Foster – Title VI: CFDA 93.658**
 - Title I: CFDA 84.010**
 - Help America Vote Act of 2002: CFDA 90.401**
 - Temporary Assistance for Needy Families: CFDA 93.558**
 - Federal Highway Administration – Planning and Construction: CFDA 20.205**
- (h) Dollar threshold used to determine Type A programs: **\$1,230,221**
- (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, 2005

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

Department of Agriculture

Child Nutrition Cluster; CFDA 10.553, 10.555 and 10.559, Program Year 2005

Finding 05-1: Reportable Condition - Procurement

Circular A-102 requires the Schools to maintain documentation to support its vendor selections on all procurement transactions. In eight out of 47 instances, we noted that the cost analysis documentation supporting the vendor selection was not adequate. We were unable to determine the questioned costs associated with this finding since the cost analysis for vendors not selected were not included in the files. There were no known questioned costs associated with this finding. KPMG recommends that the School Board initiate procedures to ensure that vendor selections are supported by written cost analyses. Preferably, the analysis should include documentation to show that a cost was obtained from more than one vendor, and should document the basis for the vendor selection.

Response: Management agrees with this finding. The finding relates primarily to Schools' use of blanket purchase orders for various food service items. In general the School Board believes the documentation for the original purchase orders was sufficient but acknowledges that additional purchases may have created a need for more documentation. In response to the finding the school division will strengthen its efforts to maintain and/or secure appropriate documentation on such transactions. This will be done by careful monitoring of expenditures on blankets to keep them within the range of the original purchase order and by continuing efforts to ensure that written cost analysis are maintained on file to support vendor selections.

Housing and Urban Development

Community Development Block Grant (CDBG); CFDA No. 14.218, Program Year 30

Finding 05-2: Special Test – Request for Release of Funds and Environmental Certification

HUD requires under 24 CFR section 58.18 that the City submit a Request for Release of Funds and Environmental Certification (RROF) for HUD programs that provide for the assumption of the environmental review responsibility by units of general local governments and States. The RROF must be approved by HUD prior to the City obligating or expending CDBG funds. An approved RROF was not obtained by the City. There were no known questioned costs associated with this finding. KPMG recommends that the City implement a policy and procedure to ensure the RROF is approved by HUD prior to requesting reimbursement.

CITY OF CHESAPEAKE

Schedule of Findings, Questioned Costs, and Management's Response
Year Ended June 30, 2005

Response: Management agrees with this finding. The error was corrected as soon as it was noted. The appropriate checklist will be more closely monitored to ensure that documentation is filed according to HUD requirements.

Department of Transportation

Federal Highway Administration Planning and Construction Grant; CFDA No. 20.205, Pass-through Agency – Virginia Department of Transportation, Program Years 2002-2005

Finding 05-3: Reporting

OMB Circular A-133 requires all federal award expenditures to be reported on the Schedule of Expenditures of Federal Awards. During fiscal year 2005, the City determined that \$4,850,749 of federal expenditures were expended in previous fiscal years (2002 through 2004) but were not reported on the Schedule of Federal Expenditures during those years. The expenditures were not reported because the award was erroneously considered to be a state funded award. As such, the expenditures were not subjected to A-133 procedures. KPMG tested the program as a major program during its 2005 audit when the error was discovered and we included the previous years' expenditures in our testwork. These expenditures are reported on the accompanying fiscal year 2005 Schedule of Expenditures of Federal Awards, but were excluded in our major program calculation as they were not fiscal 2005 expenditures. There were no known questioned costs associated with this finding. KPMG recommends that the City review its funding sources each year to ensure that federal expenditures reported on the Schedule of Federal Expenditures is complete.

Response: Management agrees with this finding. The grant in question was a pass-through payment from a state agency. The payments were not included in the report of reimbursements from the state (FIPS550 report) which the City receives quarterly, nor was the City in possession of adequate documentation of the grant in order to correctly determine the funding source. With the City's new accounting and financial reporting system, funding sources for grants and projects are identified and coded with the initial appropriation of funds. Also the grantee department is required to provide original supporting documentation from the granting agency as documentation for the appropriation. The City feels that these actions will enable it to properly track and report federal expenditures.

CITY OF CHESAPEAKE

Schedule of Findings, Questioned Costs, and Management's Response
Year Ended June 30, 2005

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

Virginia Department of Transportation

Urban Street Maintenance Program

State Finding 05-1: Reconciliation of U-3 Reports to the General Ledger

In accordance with the Auditor of Public Accounts *Audit Specifications for Countries, 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 accounting system and must be supported by detailed documentation. We noted that the reconciliation for the year ended June 30, 2005 indicated that expenditures in the general ledger were \$1,090,796 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 05-2: 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 three 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 result of maintenance and resurfacing have been properly approved by VDOT and are included in the eligible street listing.

CITY OF CHESAPEAKE

Schedule of Findings, Questioned Costs, and Management's Response
Year Ended June 30, 2005

Office of Comprehensive Services

Comprehensive Services Act for At-Risk Youth and Families Program

State Finding 05-3: Non-Contracted Vendors

In accordance with the Auditor of Public Accounts *Audit Specifications for Counties, Cities and Towns*, Chapter 3, Section 14, Comprehensive Service Act (CSA) pool funds must be expended for public or private non-residential services for troubled youths and families. All payments must be supported by a written contract or service agreement. Three instances of payments to vendors were found during our testwork that did not have an active contract or service agreement. The City is currently obtaining contracts from those vendors. We recommend that the City ensure that all payments made to vendors with CSA funds have active contracts or service agreements and that they be reviewed periodically by management.

Department of Social Services

Child Welfare Program

State Finding 05-4: Child Welfare Trust Accounts

In accordance with the Auditor of Public Accounts *Audit Specifications for Counties, Cities and Towns*, Chapter 3, Section 17, local agencies are authorized by the Code of Virginia, Section 63.2-320, to accept and expend child welfare funds for children placed by or entrusted to the local boards. Welfare funds for foster children and other individuals must be reimbursed in a timely manner to the local treasury. During our testwork, we noted one disbursement not made in a timely manner to the treasury. We recommend that the City resolve any matters that may delay reimbursements promptly and make timely deposits of all funds to the treasury relating to child welfare trust accounts.

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2100 Dominion Tower
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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, 2005, and have issued our report thereon dated November 4, 2005. 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 Economic Development Authority or the Chesapeake Airport Authority, which represent 29% 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 Economic Development Authority or the Chesapeake Airport Authority is based on the reports of the other auditors.

Our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters did not include the entities audited by the other auditors referred to in the previous paragraph. The findings, if any, of those other auditors are not included herein.

Internal Control over Financing Reporting

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

We noted certain matters that we reported to management of the City in a separate letter dated November 4, 2005.

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

November 4, 2005



KPMG LLP
2100 Dominion Tower
999 Waterside Drive
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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, 2005. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 05-1 through 05-3.

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

We noted three matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grant agreements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 05-1 through 05-3.

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 grant agreements 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 conditions described above are material weaknesses.

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

November 4, 2005



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, 2005, and have issued our report thereon dated November 4, 2005.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. We did not audit the financial statements of the City of Chesapeake Economic Development Authority or the Chesapeake Airport Authority, which represent 29% 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 Economic Development Authority or the Chesapeake Airport Authority, is based on the reports of other auditors.

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

Code of Virginia

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

State Agency Requirements

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

The results of our tests discovered four 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 05-1 through 05-4.

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

November 4, 2005