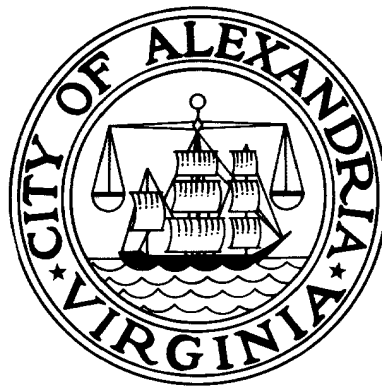




City of Alexandria, Virginia Comprehensive Annual Financial Report For the Year Ended June 30, 2003



**CITY OF ALEXANDRIA, VIRGINIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR
 JULY 1, 2002 TO JUNE 30, 2003**

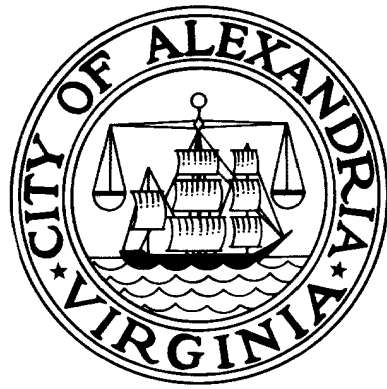


**Alexandria City Council
 William D. Euille, *Mayor*
 Redella S. Pepper, *Vice-Mayor*
 Ludwig P. Gaines
 Rob Krupicka
 Andrew H. Macdonald
 Paul C. Smedberg
 Joyce Woodson**

City ManagerPhilip Sunderland
Assistant City Manager for
Fiscal and Financial Affairs Mark B. Jinks
Director of Finance..... Daniel A. Neckel, CPA
Director of Real Estate Assessments.....Cindy Smith-Page
City Attorney Ignacio B. Pessoa
City Clerk & Clerk of Council Jacqueline Henderson
Independent Auditors KPMG LLP

Prepared by the Department of Finance
 Laura B. Triggs, CPA, Deputy Director/Comptroller

ci.alexandria.va.us



**CITY OF ALEXANDRIA, VIRGINIA
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2003**

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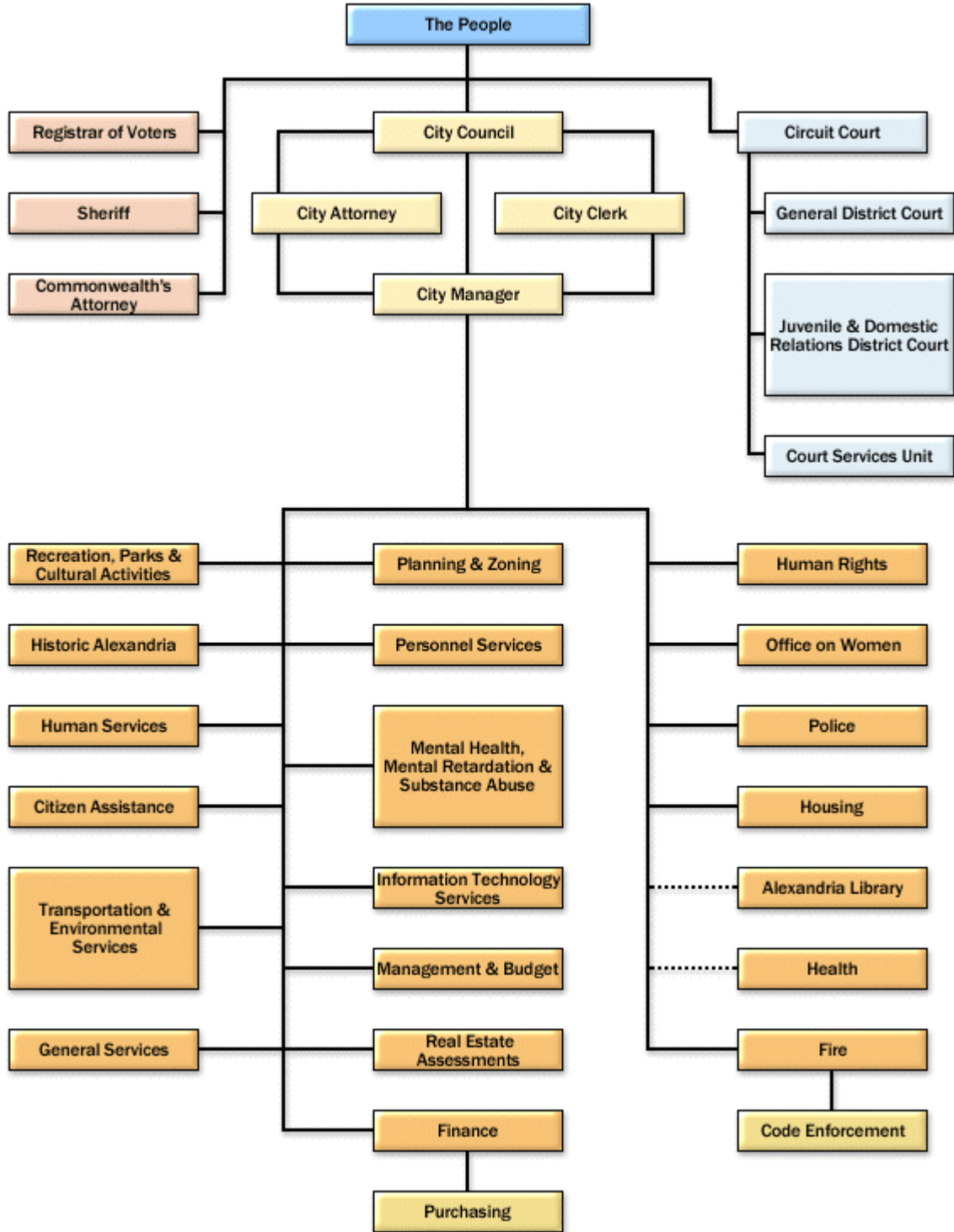
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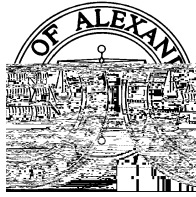
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INTRODUCTORY SECTION

ALEXANDRIA CITY GOVERNMENT ORGANIZATIONAL CHART





October 24, 2003

To the Honorable Mayor and Members of City Council,
the Citizens of the City of Alexandria, and
the Financial Community:

We are pleased to present the City of Alexandria's (the City) **Comprehensive Annual Financial Report** (the CAFR) for the fiscal year ended June 30, 2003. The report is designed to present fairly 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 in all material respects and to demonstrate compliance with applicable finance-related legal and contractual provisions. The report adheres to the principle of full disclosure so that the reader may gain the maximum understanding of the City's financial affairs.

The Finance Department has prepared this report in accordance with the following standards:

- Accounting principles generally accepted in the United States, which are uniform minimum standards and guidelines for financial accounting and reporting in the United States;
- Governmental accounting and financial reporting statements, interpretations and technical bulletins issued by the Governmental Accounting Standards Board (GASB) and;
- Uniform financial reporting standards for counties, cities and towns issued by the Commonwealth of Virginia's Auditor of Public Accounts (APA).

The responsibility for the accuracy, completeness and fairness of the data presented in the report, including all disclosures, rests with the City.

THE CITY

Alexandria, Virginia, which is located on the west bank of the Potomac River across from Washington, D.C., is an integral part of the Washington metropolitan area, serving as a financial, commercial, and transportation center. Alexandria is also one of America's most historic cities. George Washington and George Mason served as two of the City's first Trustees (the forerunner of the Alexandria City Council.)

Alexandria is an independent full-service city with sole local government taxing power within its boundaries. The City is autonomous from any county, town or other political subdivision of the Commonwealth of Virginia. Alexandria derives its governing authority from a charter granted by the General Assembly of the Commonwealth of Virginia.

The City adopted the Council-Manager form of government in 1922. The governing body of the City is the City Council, which formulates policies for the administration of the City. The City Council is composed of a Mayor and six Council Members elected at-large for three-year terms. The Mayor is elected on a separate ballot. City Council appoints the City Manager who serves as the City's chief executive officer and is responsible for implementing the policies established by City Council.

The City provides a comprehensive range of municipal services including education, health, welfare, housing and human services programs, public safety and administration of justice, community development, recreation, library, cultural and historic activities, transportation, environmental services, and planning.

FINANCIAL REPORTING ENTITY

This report includes the financial activities of the City of Alexandria government (the primary government), as well as the financial activities of the City's component units. Component units are legally separate entities for which the primary government is financially accountable. Discretely presented component units are reported in a separate column in the financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations, and cash flows from those of the primary government. The School Board, the Library System, and the Alexandria Transit Company are reported as discretely presented component units. This report does not include the financial activities of the City's Deferred Compensation Plan, Alexandria Industrial Development Authority, Alexandria Redevelopment and Housing Authority, Alexandria Economic Development Partnership, Inc., Alexandria Sanitation Authority, or Sheltered Homes of Alexandria because the City Council is not financially accountable for these entities and therefore these entities are not component units.

LOCAL ECONOMY

While Alexandria continues to be a major job center in the Washington metropolitan area, the City's proximity to National Airport and the City's resultant dependence on tourism and business travel, and the slower growing regional economy all have had a short-term impact on the number of persons employed here. As of December 31, 2002, 90,087 persons were employed in the City compared to 91,183 at the end of 2001. However since 2002, the local jobless rate decreased from 3.5 percent in 2002 to 2.4 percent in 2003.

The real estate market, which is the principal source of tax revenue for the City, continued to improve. Total real property assessments increased by 19.9 percent, or \$3.2 billion, including \$2.3 billion residential appreciation and \$0.9 billion of commercial growth.

MAJOR INITIATIVES

Strong fiscal management remains a hallmark of Alexandria's City government and has enabled the City to respond to priority needs, including public safety, public education, and modernization of heavily used recreation and library facilities. Alexandria is among an elite group of cities in the United States to hold the top AAA/Aaa bond ratings from both of Wall Street's major credit rating agencies.

During the past fiscal year, the City made progress in a number of important areas, including major renovations to the City's public safety and sewer infrastructure.

SERVICE EFFORTS AND ACCOMPLISHMENTS

In accordance with Government Accounting Standards Board (GASB) Concept Statement No. 1, Service Efforts and Accomplishments, each year the City selects a department to highlight for its efforts and accomplishments. In FY 2003, the City has chosen to highlight the City's Department of Planning and Zoning.

The City's Department of Planning and Zoning has met a number of challenges over the last year. With the important history of Old Town, the Potomac River waterfront resource and the diverse residential neighborhoods, the City must continually ensure that future development and redevelopment activities in the City reflect community goals and values.

Currently the City has several projects underway in the Eisenhower Avenue area including the United States Patent and Trademark Office (PTO). This project represents a relocation into Alexandria of more than 7,100 employees in 2.4 million square feet of office space. This is a private development which will be on the City's tax rolls and represents the largest lease ever signed by the U.S. General Services Administration. In addition, adjacent development will add new office, residential and hotel properties to this area. This project has required the City to look at how this influx of PTO employees will affect not only traffic and parking but also the surrounding neighborhood. The needs of the new activity has had to be viewed in the context of the existing as well as future transit and road infrastructure.

The City has also spent an extensive amount of time planning a long-term vision for the Arlandria neighborhood. This planning process culminated in creating a long-term vision for the neighborhood, defining the concerns of the neighborhood and developing solutions. For this project, the City appointed a task force that included City staff and both residential and commercial neighbors. This group identified several goals and objectives for the long-term vision including:

- Creating a neighborhood focus and identity

- Creating a mixed use high density neighborhood center
- Promoting economically viable new development to support the neighborhood
- Maintaining the character of the residential neighborhoods

Through a series of workshops the task force identified concerns, analyzed the neighborhood, examined traditional and urban neighborhood patterns. These workshops identified guiding neighborhood principles and principles to guide infill development. The group developed an action plan with both short and long term components including parking, pedestrian safety, streetscape, and neighborhood and City coordination issues.

Using the PTO and Arlandria experiences as the starting point, the City is now undertaking a blueprint for all City planning that recognizes that the success of many of the City's neighborhoods is linked to the City's commercial areas. As part of this process, the City's Department of Planning and Zoning outlined four categories of planning that occurs in the City. These include **new development**, including Eisenhower Valley, **redevelopment** including upper Potomac West and Braddock Road, **intensification** of uses on small parcels, and **changing industrial** to residential or office uses.

- For new development, the City has begun to establish a set of standards to ensure that new development is appropriate for Alexandria.
- For redevelopment, City planners recognize that changes in these areas must be undertaken in concert with the neighborhood.
- For intensification, the City must look at ways to accommodate new growth and development while preserving established neighborhoods
- For changing industrial uses, the City must have zoning flexibility where the scarcity of land has caused some residential development to occur near existing industrial sites.

The success of the PTO and its coordinated adjacent development and Arlandria planning processes provides a process template which will guide the future planning activities in the City's residential and commercial neighborhoods.

FINANCIAL CONDITION

The City government continues to be in very sound financial condition as demonstrated by the financial statements and schedules included in this report. Within the context of a fiscally prudent budget, the City has continued to provide basic services, has achieved many of its program goals, and enhanced the quality of life in the City. The City's cash and investment position was strong throughout the fiscal year.

As the economy has remained somewhat sluggish this year, affecting local and state tax revenues collections, the City will continue to experience budget pressure over the next several years. Keeping existing programs funded, salaries of public employees competitive, and addressing the budget and expanded program needs of the community in a slowing economy will require careful budgeting. Capital investment and the resulting debt service costs will continue to increase. The need for increased operating and capital support to fund a new high school to replace T.C. Williams remains as one of the City's major budget challenges. Over the next year, revenues are budgeted to grow by at least 5 percent over FY 2003 actual revenues reflecting both an expanded real estate tax base as well as 4.5-cent decrease in the City's real estate tax rate (from \$1.08 to \$1.035). The City believes, in general, that the overall state of its infrastructure of streets, bridges, and many public facilities is good, with the increased capital improvement program aimed at maintaining and improving the City's infrastructure.

The amount of development in the City will also influence future expenditure and revenue levels with a number of major new developments projected to generate additional tax revenues such as the relocation of the PTO headquarters to Alexandria as discussed in the prior Service Efforts and Accomplishment section.

Over the last ten years, the City's property tax base has grown an average of 6.7 per cent per year while the pace of expenditures also continued to increase. The City has been able to maintain its fiscal strength as the result of the City Council's adoption of, and subsequent adherence to, the series of financial policies listed on page 11. These policies are aimed at (1) limiting debt and annual debt service requirements and (2) maintaining an appropriate General Fund fund balance so as to retain the City's AAA/Aaa bond rating and to keep the City on firm financial footing. When City Council initially adopted the financial policies in 1987, the City's general obligation debt as a percentage of the tax base was 1.4 percent. Because the City continues to use "pay-as-you-go" financing for many capital projects, the City has maintained superior debt ratios since 1987. At the end of FY 2003, the City's debt to tax base ratio was just 0.74 percent with that projected to rise to 1.2 percent by FY 2008. The City's financial policies encourage the use of surplus General Fund revenue and resources derived from underexpenditures to fund capital projects rather than to fund operating programs.

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

GENERAL GOVERNMENT FUNCTIONS

This is the eighth consecutive year that the overall assessed values of real property have increased. The following table shows that the overall real property assessed value has increased by \$8.5 billion since 1994, including a 19.9 percent increase from 2002 to 2003. Real property taxes, which are based on assessments as of January 1 of each year, are due in two payments. The first half of the real estate tax is due on June 15 and the second half of the tax is due on November 15.

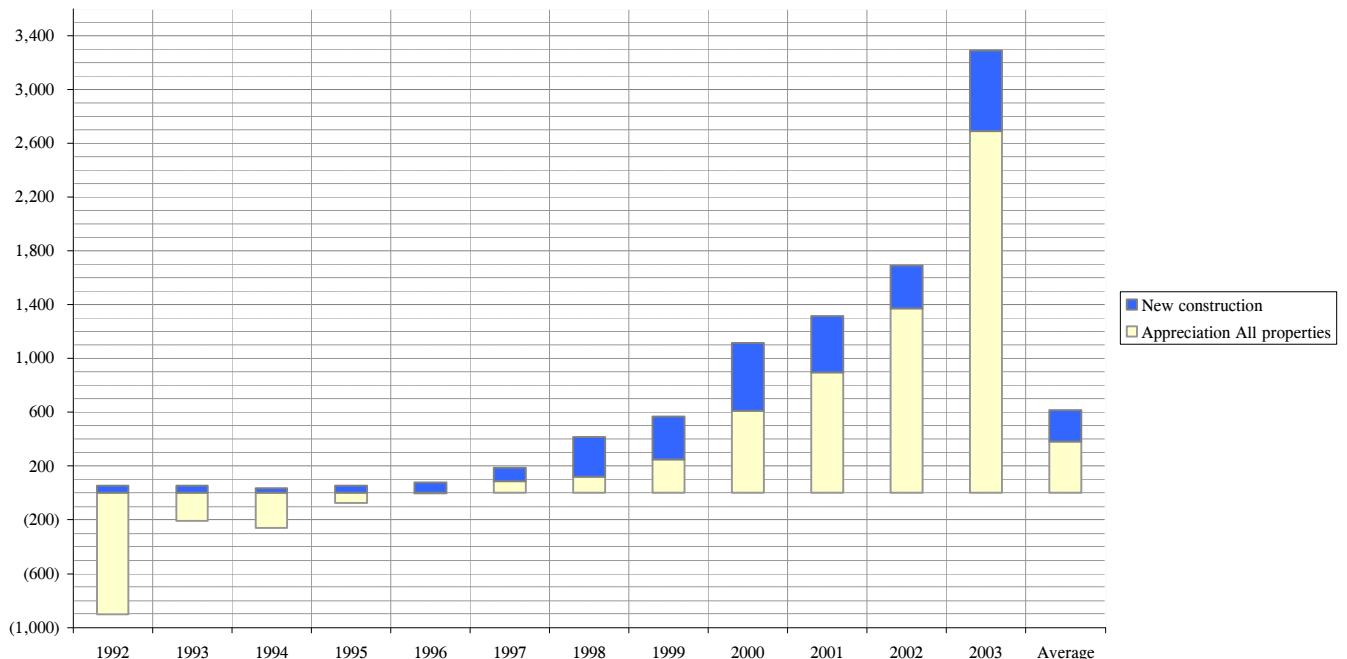
CHANGE IN ASSESSED VALUE OF REAL PROPERTY (Amounts in thousands of dollars)

Year	Residential Assessed Value	Residential % Increase (Decrease)	Commercial ¹ Assessed Value	Commercial % Increase (Decrease)	Total Assessed Value	Total % Increase (Decrease)
1994	\$ 5,462,996	(0.1)	\$ 5,355,328	(3.7)	\$ 10,818,324	(1.9)
1995	5,576,578	2.1	5,260,736	(1.8)	10,837,314	0.2
1996	5,658,106	1.5	5,284,168	0.4	10,942,274	1.0
1997	5,742,376	1.5	5,428,427	2.7	11,170,803	2.1
1998	5,882,796	2.4	5,722,494	5.4	11,605,290	3.9
1999	6,169,055	4.9	6,018,465	5.2	12,187,520	4.8
2000	6,716,942	8.9	6,578,366	9.3	13,295,308	9.1
2001	7,573,897	12.8	7,058,452	7.4	14,632,349	10.1
2002	8,889,290	17.4	7,243,699	2.6	16,132,989	10.3
2003	11,155,348	25.5	8,192,903	13.1	19,348,251	19.9

1. Includes apartment buildings.

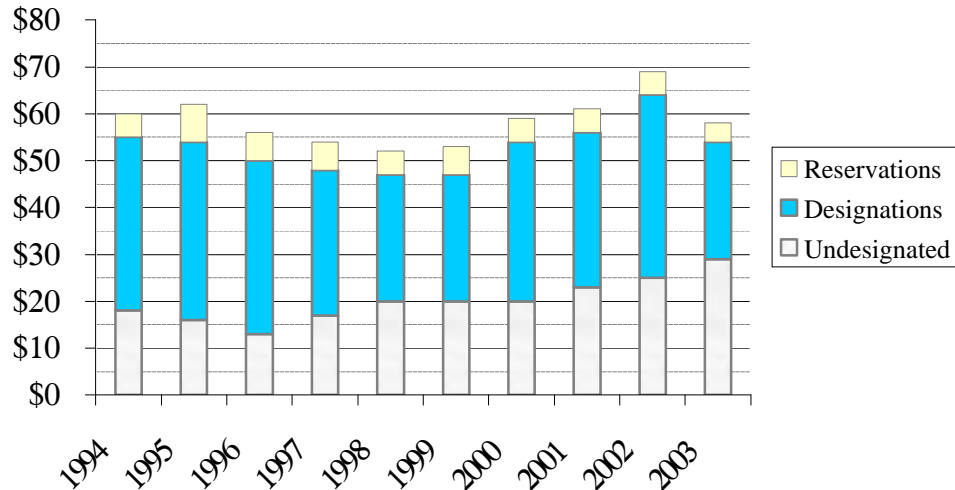
The next chart dissects the increases and decreases in assessed values since 1992 into appreciation and depreciation of existing properties and new properties (this chart is comprised of single year snapshots and is not cumulative).

Change in Total Tax Base



The General Fund Unreserved Fund Balance financial policies are a keystone to the City's overall financial strength and stability. At the end of FY 2003, the City's General Fund fund balance was \$58 million and included \$5.2 million designated for future capital funding, as well as an undesignated portion of Fund Balance totaling \$27.3 million (Table XVIII), slightly higher than at the end of FY 2002. At the end of FY 2003 the City's ending General Fund fund balance condition was consistent with the City's established financial policies, and somewhat above expectations. The drop in fund balance from FY 2002 to FY 2003 related primarily to revenue surpluses from FY 2001 and FY 2002, which were designated for capital projects. The transfer of these designated funds to the capital projects fund occurred during FY 2003.

City of Alexandria General Fund - Fund Balance
(in millions)



In conjunction with the annual operating budget preparation, the City Manager annually prepares a six-year Capital Improvement Plan to provide for the financing of improvements to the City's public facilities. The first year of the program constitutes the capital budget for the current fiscal year; the remaining five years serve as a planning guide. The City accounts for capital improvement expenditures in the Capital Projects Fund and finances the projects from the General Fund (including appropriations of Designated Fund Balance), general obligation debt, the sale of surplus property, and intergovernmental grant revenues. The City's Capital Improvement Plan for FY 2004 through 2009 represents \$340.1 million of City-funded public improvements to the City's schools, public buildings, parks, and transportation systems. In addition, state and federal grants and other sources such as prior year City funds will provide \$218.0 million in additional planned capital funding for the FY 2004-FY 2009 time period.

To continue a strategy of improving and then maintaining the City's creditworthiness, the City Council established the following key target and ceiling ratios as of June 30 of each year:

	<u>Ceiling</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Target</u>
Debt as a Percentage of Fair Market Value	1.6%	0.34%	0.26%	0.54%	0.86%	0.74%	0.95%	0.74%	1.1%
Debt Per Capita as a Percentage of Per Capita Income	3.25%	0.7%	0.6%	1.1%	1.7%	1.6%	2.1%	2.0%	2.25%
Debt Service as a Percentage of General Governmental Expenditures ¹	10.0%	2.9%	2.5%	1.7%	2.3%	3.1%	3.5%	3.6%	8.0%
General Fund Balance as a Percentage of General Fund Revenue:									
Unreserved	10% (floor)	19.1%	17.6%	16.5%	17.3%	16.6%	17.6%	15.5%	---
Undesignated	4% (floor)	6.7%	7.6%	6.9%	6.4%	6.6%	6.8%	7.3%	5.5%

¹ Data includes School Board and Library component units.

The adopted financial policies include the following:

- The City will increase its reliance on current revenue to finance its capital improvements.
- The City will consider a designation for pay-as-you-go capital a priority when additional General Fund resources become available at the end of a fiscal year.
- The City will not use General Fund equity to finance current operations for periods of longer than two years.
- The City will annually prepare a six-year Capital Improvement Plan.
- The City will not issue tax or revenue anticipation notes to fund governmental operations.
- The City will not issue bond anticipation notes for a term of longer than two years.

The City's General Obligation Bonds have the top available ratings as follows:

<u>Moody's Investors Service</u>	<u>Standard & Poor's</u>
Aaa	AAA

CASH MANAGEMENT

The primary objectives of the City's cash management and investment program are the safety and preservation of principal, liquidity, and yield.

The City takes full advantage of temporarily idle cash and the scheduling of vendor payments. To ensure the most competitive rates on investments, the cash resources of the individual funds (excluding Bond Proceeds in the Capital Projects Fund, certain cash with fiscal agents in the Fiduciary Funds, and certain cash accounts of discretely presented component units) are combined to form a pool of cash and investments. The investment pool's portfolio policy articulates that the portfolio should be composed of obligations of the U.S. Government and its agencies, repurchase agreements fully collateralized by obligations of the U.S. Government or its agencies, and highly rated commercial paper. The City maintains security over its investments in repurchase agreements through an agreement with its portfolio management services whereby the collateral on the City's investments is maintained in the City's name. All investments are stated at fair value.

For the cash and investment pool, the average daily investment portfolio in FY 2003 was \$124.2 million. The City earned interest income during the year at an average rate of return of 1.4 percent.

BUDGETARY ACCOUNTING AND INTERNAL CONTROLS

The City Charter requires the City Manager to submit a balanced budget to City Council no later than the first regular meeting in April of each year. Each department and agency prepares its own budget request for review and amendment by the Office of Management and Budget and the City Manager prior to inclusion in the City's general operating budget. The School Board prepares the Schools' budget and transmits it to the City Manager. The City Manager then submits his recommendation to City Council for consideration. The City's practice is to prepare and present a budget document that meets the Government Finance Officers Association (GFOA) criteria to receive the Distinguished Budget Presentation Award. According to GFOA, "in order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operation guide, as a financial plan, and as a communications device." Since the budget document for fiscal year 1990, the City has presented budgets every year that conformed to GFOA requirements and has received the GFOA Award. The City plans to do so for future budget documents.

City Council establishes a time and place for public hearings on the budget. One of the hearings must be at least 60 days before the beginning of the next fiscal year. Except for the Schools' budget, which may only be increased or decreased by major category or as a whole, City Council may insert new items of expenditure or may increase, decrease or strike out items of expenditure (other than debt service or other legal requirements). If Council does not adopt a budget before June 27, the budget submitted by the City Manager for the upcoming fiscal year has full force and effect as if it had been adopted by Council. On May 6, 2002 City Council approved the overall budget for FY 2003. During FY 2003, as is customary, the City Council also approved supplemental budget amendments.

As a management tool, budgetary control is maintained in the General Fund at the character level (i.e., personnel, non-personnel, capital outlays) and by the encumbrance of estimated purchase amounts before the release of purchase orders to vendors. Management can transfer appropriations at the department appropriation level without approval from City Council. The City follows a similar procedure with the Special Revenue Fund, but the level of control is at the grant or program level. In the Capital Projects Fund, the level of control is at the project level. With the Schools' budget, the level of control is at the total appropriation level.

City management is responsible for establishing and maintaining internal controls designed to ensure that the assets of the City are protected from loss, theft or misuse. Internal controls are intended to provide reasonable, but not absolute, assurance that these objectives are met. In addition to the examination of controls performed by members of the Finance Department, the City's Internal Audit staff continually reviews and assesses the soundness and adequacy of the City's financial systems.

RISK MANAGEMENT PROGRAM

The City's risk management program is designed to protect against accidental losses that would significantly affect personnel, property, the budget, or the City's ability to fulfill its responsibility to the taxpayers and the public. To limit its exposure to the various risks of loss, the City carries several types of insurance, has joined several risk pools, and is self-insured for some of its workers' compensation liabilities and other liabilities. A total of \$5 million of the unreserved General Fund fund balance has been designated to meet potential self-insurance losses as of June 30, 2003.

In addition, the risk management program includes employee training in prevention and administration of workers' compensation claims. As part of this program, all employees who drive City vehicles must attend and pass defensive driving classes.

REPORT FORMAT

The City's Finance Department has prepared this **Comprehensive Annual Financial Report (CAFR)** in an effort to present all the information necessary to meet the needs of the many persons and groups that have an interest in the City's financial affairs. The objective of this report is to present financial information on a comparative basis with other governmental entities in Virginia and in accordance with established national standards. We believe the data is accurate in all material respects and is reported in a manner designed to present fairly the City's financial position and results of operations.

This **Comprehensive Annual Financial Report** is presented in four sections: introductory, financial, statistical, and single audit. The introductory section includes a list of principal officials, the City's organizational chart, and this transmittal letter. The financial section includes the management discussion and analysis (MDA), basic, fund, and component unit financial statements, notes to financial statements, budgetary comparison schedules, required supplementary information for public employee retirement systems, and other supplementary information, as well as the independent auditors' report. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis. The single audit section contains information on the City programs that are financed by federal grants. This information is required by the Single Audit Act Amendments of 1996, and by the Auditor of Public Accounts of the Commonwealth of Virginia.

INDEPENDENT AUDIT

Section 5.18 of the City Charter requires an annual audit of the accounting and financial records of the City by independent certified public accountants. This section requires the auditor to examine the funds of the City in accordance with auditing standards generally accepted in the United States of America and the standards set forth in the General Accounting Office's *Government Auditing Standards*. In addition, the auditor must conduct the compliance examinations required by the Single Audit Act Amendments of 1996, the related U.S. Office of Management and Budget's Circular A-133, and the *Specifications for Audit of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

The Alexandria City Council has selected the firm of KPMG LLP to perform these audit services. Their reports are presented in the Financial Section and the Single Audit Section of this report.

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the City of Alexandria a Certificate of Achievement for Excellence in Financial Reporting for the City's **Comprehensive Annual Financial Report** for the 25th consecutive year in 2002. The GFOA awards a Certificate to governmental units that exemplify excellence in financial reporting and conform to stringent reporting requirements promulgated by that Association and various authoritative bodies.

To earn a Certificate of Achievement, a CAFR must tell its financial story clearly, thoroughly, and understandably. The report must be efficiently organized, employ certain standardized terminology and formatting conventions, minimize ambiguities and potentials for misleading inference, enhance understanding of current generally accepted accounting theory, and demonstrate a constructive "spirit of full disclosure."

A Certificate is valid for a period of one year only. The City believes our current report continues to conform to the Certificate of Achievement Program requirements and standards. We are submitting it to GFOA to determine its eligibility for another certificate for FY 2003.

REPORTING REQUIREMENTS

As required by the U.S. Securities and Exchange Commission Rule 15c2-12, the City has agreed for the benefit of the owners of City general obligation bonds and joint enterprise waste-to-energy-revenue bonds, to provide each nationally recognized municipal securities information repository and to any appropriate state information depositor, if any is hereafter created, certain financial information not later than 270 days after the end of each of its fiscal years, commencing with the fiscal year ended June 30, 1996. This CAFR provides the 15c2-12 general bond obligation bond information which includes the "Debt Statement" found in Note 10 of Notes to the Financial Statements, a "Five Year Summary of General Fund Revenues and Expenditures" found in Table XX, a Summary of Debt found in Table XXI, and Tax Revenues by Source found in Table III.

ACKNOWLEDGMENTS

We would like to express our appreciation to everyone in the City who assisted with and contributed to the preparation of this report. Special recognition is extended to Carl Green, formerly of the Accounting Division, now Administrative Division Chief in the City's Department of Transportation and Environmental Services for his dedicated pursuit of excellence and leadership in financial reporting.

Respectfully submitted,



Mark B. Jinks
Assistant City Manager for
Fiscal and Financial Affairs



Daniel A. Neckel, CPA
Director of Finance



Laura B. Triggs, CPA
Deputy Director of Finance/
Comptroller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Alexandria,
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

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



President

Executive Director



FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT





2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Honorable Mayor and Members of the City Council
City of Alexandria, 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 Alexandria, Virginia (the City), as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements identified as Exhibits I through XII in the Financial Section of the accompanying 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Cities, Counties and Towns*, 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 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 provides a reasonable basis for our opinions.

In our opinion, 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 of Alexandria, Virginia, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



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The Management's Discussion and Analysis, the budgetary comparison schedules, and the schedules of funding progress and employer contributions on pages 23 through 32, 94 through 96, and 97, respectively, 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 identified as schedules 1 through 2 in the Financial Section in the accompanying table of contents 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 information identified as the Introductory and Statistical Sections of the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

KPMG LLP

October 24, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS



MANAGEMENT’S DISCUSSION AND ANALYSIS

The following discussion and analysis of the City of Alexandria’s financial performance provides an overview of the City’s financial activities for the fiscal year ended June 30, 2003. Please read it in conjunction with the transmittal letter at the front of this report and the City’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FY 2003

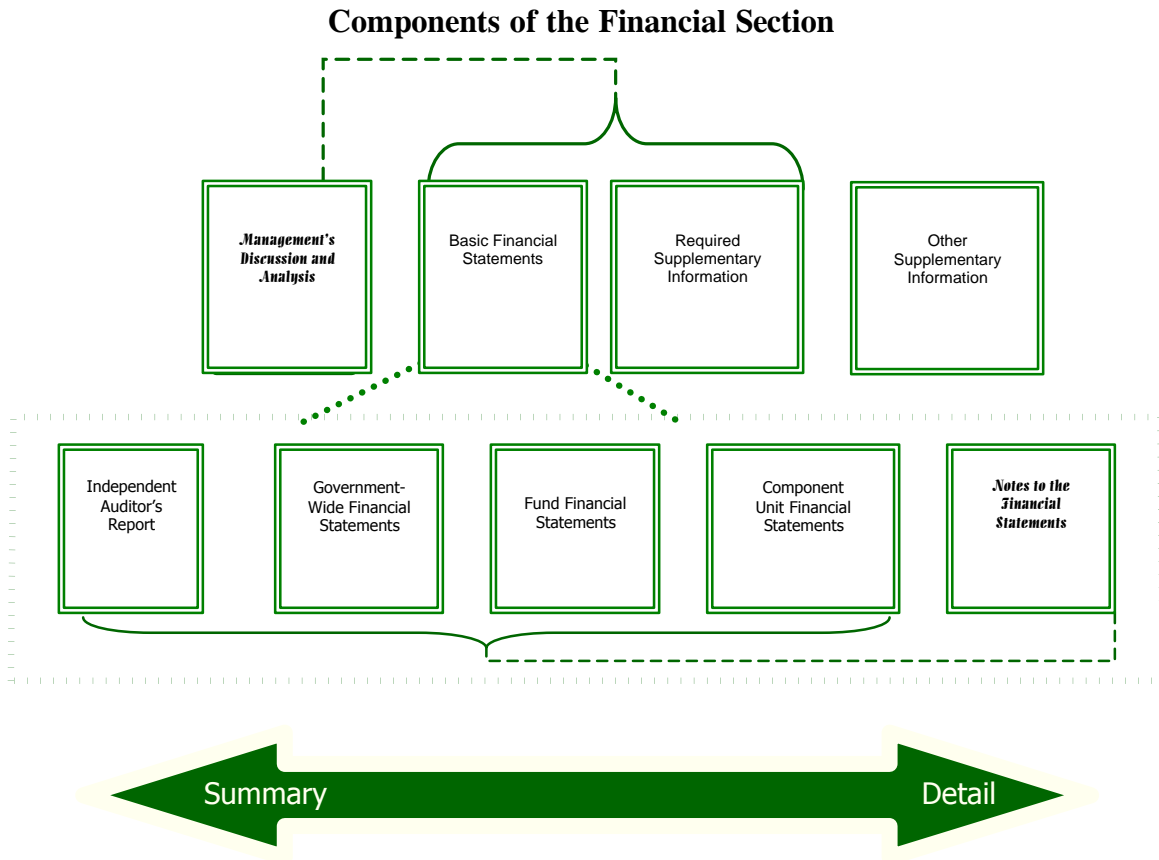
The General Fund, on a current financial resource basis, reported expenditures and other financing uses in excess of revenues and other financing sources and uses by \$10.2 million (Exhibit IV) after making a \$26.2 million transfer to the capital projects fund and a \$20.9 million transfer to the special revenue fund.

On a government-wide basis for governmental activities, the City’s general revenues of \$343 million were \$9 million more than the \$334 million of expenses net of program revenue on (Exhibit II).

The City’s total net assets, excluding component units, on the government-wide basis, totaled \$301 million at June 30, 2003. Of this amount, \$68 million is unrestricted. (Exhibit I).

USING THE FINANCIAL SECTION OF THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report consists of four sections: introductory, financial, statistical, and single audit. As the following chart shows, the financial section of this report has four components - *management’s discussion and analysis* (this section), the *basic financial statements*, the *required supplementary information* and the *other supplementary information*.



GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The government-wide financial statements provide both long-term and short-term information about the City's overall financial status. The Statement of Net Assets and the Statement of Activities, which are the government-wide statements, report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in those assets. The City's net assets position - the difference between 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 one indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors will need to be considered, however, such as changes in the City's property tax base and the condition of the City's infrastructure, to assess the overall health of the City.

The Statement of Net Assets and the Statement of Activities includes the following:

Governmental activities - Most of the City's basic services are reported here: Police, Fire, Transportation and Environmental Services, Recreation, Parks & Cultural Activities Departments, and general administration. Property taxes, other local taxes, and state and federal grants finance most of these activities.

Business-type activities - The City's recycling program operations were reported here since the City charges a fee to customers to help it cover the cost of certain services it provides. Since these fees no longer cover most of the cost of services, City Council authorized the transfer of this fund and related assets to the General Fund and Internal Service Fund in FY 2003.

Component units - The City includes three separate legal entities in its report - the City of Alexandria School Board, the City of Alexandria Library System, and the Alexandria Transit Company. Although legally separate, these "component units" are important because the City is financially accountable for them, and provides operating and capital funding to them.

FUND FINANCIAL STATEMENTS

The fund financial statements provide additional information about the City's most significant funds - not the City as a whole. The fund financial statements focus on the individual parts of the City government.

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 left at year end that are available for spending. Consequently, the governmental funds 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 at the bottom of the governmental funds statements that explains the relationship (or differences) between them.

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 long- and short-term financial information.

In fact, the City's enterprise fund (one type of propriety fund) is the same as its business-type activities, but the fund financial statements provide more detail and additional information, such as cash flows. The City's only enterprise fund accounts for the operation of the City's recycling program. As this fund no longer meets the criteria for a proprietary fund and it was transferred to the General Fund in FY 2003.

The City uses an internal service fund (the other kind of propriety fund) to report activities that provide supplies and services for the City's other programs and activities. The Equipment Replacement Reserve Fund is the City's only internal service fund. Its primary purpose is to provide for the accumulation of money to replace capital equipment used in City operations.

Fiduciary funds - The City is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for other assets (known as agency funds) 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 these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. The City excludes these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations. Agency Funds are City custodial funds used to provide accountability of client monies for which the City is custodian.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Statement of Net Assets:

The following table presents the condensed Statement of Net Assets:

Table 1
Summary Statement of Net Assets
as of June 30, 2003 and 2002
(in millions)

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u> <u>Primary Government</u>		<u>Component</u> <u>Units</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Current and other assets	\$ 327	\$ 338	\$ -	\$ 1	\$ 327	\$ 339	\$ 36	\$ 32
Capital assets	317	287	-	-	317	287	19	17
Total assets	<u>\$ 644</u>	<u>\$ 625</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 644</u>	<u>\$ 626</u>	<u>\$ 55</u>	<u>\$ 49</u>
Other liabilities	\$ 187	\$ 169	\$ -	\$ -	\$ 187	\$ 169	\$ 21	\$ 21
Long-term liabilities	156	164	-	-	156	164	5	4
Total liabilities	<u>\$ 343</u>	<u>\$ 333</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 343</u>	<u>\$ 333</u>	<u>\$ 26</u>	<u>\$ 25</u>
Net assets:								
Invested in capital assets, net of related debt	\$ 160	\$ 119	\$ -	\$ -	\$ 160	\$ 119	\$ 19	\$ 17
Restricted	73	70	-	-	73	70	-	-
Unrestricted	68	103	-	1	68	104	10	7
Total Net Assets	<u>\$ 301</u>	<u>\$ 292</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 301</u>	<u>\$ 293</u>	<u>\$ 29</u>	<u>\$ 24</u>

Amounts may not add due to rounding

The City's combined net assets (which is the City's bottom line) increased by three per cent, or \$9 million, to \$301 million primarily as a result of budgeted pay down of long term debt and state donated and cash capital additions for infrastructure (Exhibit II). The increase in the City's short term assets is primarily attributable to the increase in real property tax assessments. The increase in component units' net assets is primarily attributable to transit assets and cash on hand for reimbursements for school equipment. The City's capital assets increased \$30 million, including additions to the City's sewer infrastructure and schools. Also included in the capital asset increase is a \$14 million increase in construction in progress (Note 5), primarily relate to improvements to the City's infrastructure and schools.

The net assets of business-type activities decreased by \$0.9 million, when the City Council approved transfer of the assets to the General Fund and the Internal Service Fund in Fiscal Year 2003.

Statement of Activities

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

Table 2
Changes in Net Assets
For the Fiscal Years Ended June 30, 2003 and 2002
(in millions)

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u> <u>Primary</u> <u>Government</u>		<u>Component</u> <u>Units</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Revenues								
Program revenues:								
Charges for services	\$ 25	\$ 25	\$ --	\$ --	\$ 25	\$ 25	\$ 4	\$ 4
Operating grants and contributions	60	53	--	--	60	53	29	29
Capital grant/contributions	20	12	--	--	20	12	--	--
General revenues:								
Property taxes	221	202	--	--	221	202	--	--
Other taxes	88	86	--	--	88	86	--	--
Other	33	37	--	--	33	37	--	--
Transfer	1	--	--	--	1	--	--	--
Payment to/from from City	--	--	--	--	--	--	136	121
Total revenues	<u>\$ 448</u>	<u>\$ 415</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 448</u>	<u>\$ 415</u>	<u>\$ 169</u>	<u>\$ 154</u>
Expenses								
General government	\$ 47	\$ 45	\$ --	\$ --	\$ 47	\$ 45	\$ --	\$ --
Judicial administration	13	12	--	--	13	12	--	--
Public safety	88	83	--	--	88	83	--	--
Public works	37	33	--	--	37	33	--	--
Library	5	5	--	--	5	5	6	5
Health and welfare	72	67	--	--	72	67	--	--
Transit	12	7	--	--	12	7	7	7
Culture and recreation	21	17	--	--	21	17	--	--
Community development	13	12	--	--	13	12	--	--
Education	123	111	--	--	123	111	151	143
Recycling	--	--	--	--	--	--	--	--
Transfer	--	--	1	--	1	--	--	--
Interest on long-term debt	7	8	--	--	7	8	--	--
Total expenses	<u>\$ 439</u>	<u>\$ 401</u>	<u>\$ 1</u>	<u>\$ --</u>	<u>\$ 440</u>	<u>\$ 401</u>	<u>\$ 164</u>	<u>\$ 155</u>
Change in net assets	<u>\$ 9</u>	<u>\$ 14</u>	<u>\$ (1)</u>	<u>\$ --</u>	<u>\$ 8</u>	<u>\$ 14</u>	<u>\$ 5</u>	<u>\$ (1)</u>
Net Assets Beginning of Year	<u>\$ 292</u>	<u>\$ 278</u>	<u>\$ 1</u>	<u>\$ 4</u>	<u>\$ 293</u>	<u>\$ 279</u>	<u>\$ 24</u>	<u>\$ 25</u>
Net Assets End of Year	<u>\$ 301</u>	<u>\$ 292</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 301</u>	<u>\$ 293</u>	<u>\$ 29</u>	<u>\$ 24</u>

Amounts may not add due to rounding

REVENUES

For the fiscal year ended June 30, 2003 revenues from governmental activities totaled \$448 million. Real estate tax revenues, the City's largest revenue source, reflecting the accrual of the last half of calendar year 2002 and the first half of calendar year 2003 real property tax billings, were \$189 million. The increase in tax revenues is primarily attributable to an increase in the City's assessed real property tax base, which increased 19.9 percent for calendar year 2003. In addition:

- Operating grants included \$1million in increased funding for childcare services in the City for low-income families.

- Capital grants and contributions are primarily comprised of City road projects managed and paid for by the Commonwealth of Virginia and turned over to the City for maintenance. The increase relates to the timing of completed projects as determined by the Commonwealth. (Footnote 5)

Component units' nets assets increased primarily as a result of capital asset purchases for transit and reimbursements for schools.

EXPENSES

For the fiscal year ended June 30, 2003 expenses for governmental activities totaled \$439 million that includes increases for employee compensation and budgeted increases in payments for educational expenses to the School Board.

As noted below for FY 2003 the City provided increased resources to the following areas:

- Homeland security and security for the related terrorist trials for public safety and judicial administration
- Increased funding for child care and foster care programs
- Increased funding for sewer infrastructure
- Increased funding to the City's public school system
- Funding to purchase land for a new building.

In addition, education continues to be one of the City's highest priorities. The City's operating subsidy to the Schools for FY 2003 totaled \$115 million. In addition, the City spent \$8 million for Schools' capital projects in FY 2003.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

For the fiscal year ended June 30, 2003, the governmental funds reflect a combined fund balance of \$145 million (Exhibit III). The fund balance decrease of \$30 is attributable to use of bond funds for planned capital projects. In addition, these other changes in fund balance should be noted:

- The General Fund contributed \$26 million to pay-as-you-go financing of capital projects.
- The City's General Fund contributed \$115 million to the schools for operations and the Capital Projects fund spent \$8 million to finance School capital projects.
- The City spent \$5 million more in FY 2003 for Health and Welfare activities in the Special Revenue and General Funds. A substantial part of these expenditures were for childcare and at risk youth, including state mandates in these areas. In part because of these state mandates, health and welfare expenditures were \$0.5 million in excess of the budget.
- The City spent \$8 million more in FY 2003 for homeland security. These expenditures were partially funded by special federal grants to the City. The additional expenses needed to address homeland security needs contributed to the Fire department being in excess of the approved budget by \$0.3 million. In addition, increased expenditures in the Special Revenue Fund for community development were attributable to a change in the timing of funding some of the City's housing priorities.
- The City spent \$50 million in the Capital Projects Fund to fund infrastructure, needed capital upgrades for homeland security, and school renovations and expansion.

Except for reservations of fund balances (Exhibit III), there are no significant limitations on fund balances that would affect the availability of fund resources for future uses

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund

	FY 2003 (in millions)		
	Original Budget	Amended Budget	Actual
<u>Revenues and Transfers</u>			
Taxes	\$ 293	\$ 293	\$ 307
Intergovernmental	46	47	47
Other	25	24	21
Transfer	-	-	1
Total	\$ 363	\$ 364	\$ 376
<u>Expenditures and Transfers</u>			
Expenditures	\$ 212	\$ 218	\$ 214
Transfers	161	173	172
Total	\$ 373	\$ 391	\$ 386
Change in Fund Balance	\$ (10)	\$ (27)	\$ (10)

Amounts may not add due to rounding

Expenditures and other financing uses exceeded revenue and other financing sources by \$10 million in the General Fund for FY 2003.

Actual General Fund revenues exceeded original budgeted revenues by \$13 million and the amended budget by \$12 million during FY 2003. This increase is primarily due to increased real estate tax revenues due to higher assessments. These revenues were offset somewhat by decreased collections for related telecommunications taxes. Primarily due to supplemental appropriation for encumbrances and cash capital transfers, actual General Fund expenditures and transfers were greater than the original budget by \$13 million, but were less than the amended budget by \$5 million.

During FY 2003, City Council amended the budget two times. These budget amendments or supplemental appropriation ordinances were primarily for the following purposes:

- To reappropriate monies to pay for commitments in the form of encumbrances established prior to June 30, 2002 but not paid by that date. Encumbrances for General Fund obligations for purchase orders authorized and issued, but for which goods and services were not received or paid by June 30, 2002 totaled \$3.1 million.
- To reappropriate monies to pay for projects budgeted for Fiscal Year 2002 but not completed before the end of the fiscal year.
- To reappropriate grant, donation and other revenues authorized in Fiscal Year 2002 or earlier, but not expended or encumbered as of June 30, 2002.
- To appropriate grants, donations, and other revenues accepted or adjusted in FY 2003.
- To appropriate the designated General Fund balance of \$11.9 million to capital projects.

CAPITAL ASSETS

At the end of Fiscal Year 2003, the City's governmental activities had invested \$317 million (see Note 5) in a variety of capital assets and infrastructure, as reflected in the following schedule, which represents a net increase of \$30.5 million.

Table 3
Governmental Activities
Change in Capital Assets
(in millions)

	Balance <u>June 30, 2002</u>	Net Additions/ <u>Deletions</u>	Balance <u>June 30, 2003</u>
Non-Depreciable Assets			
Land and Land Improvements	\$ 49.0	\$ 1.8	\$ 50.8
Construction in Progress	29.4	21.6	51.0
Other Capital Assets			
Infrastructure	98.9	11.2	110.1
Buildings	187.0	3.2	190.2
Furniture and Other Equipment	38.5	4.8	43.3
Accumulated Depreciation on Other Capital Assets	<u>(116.0)</u>	<u>(12.1)</u>	<u>(128.1)</u>
Totals	<u>\$ 286.8</u>	<u>\$ 30.5</u>	<u>\$ 317.4</u>

Amounts may not add due to rounding

The FY 2003 increase in construction in progress includes the work on the City's infrastructure and school buildings. The additions to land and buildings include the purchase of a building for City use.

The City added \$11 million, net, in infrastructure assets for fiscal year 2003, primarily for roads completed by the State and turned over to the City. Infrastructure assets include roads, bridges and water and sewer systems. These assets, which are stationary and can be preserved for significantly longer than most capital assets, were included in the City's financial statements for the first time in fiscal year 2000.

The FY 2004 - FY 2009 Approved Capital Improvement Program (CIP), which was approved by City Council during April 2003, sets forth a six-year, \$340.1 million City funded and \$218.0 million partially state transportation aid funded program of public improvements for the City and the Alexandria City Public Schools, and represents (in City funding) an increase of approximately \$156 million over the FY 2003-2008 CIP. The CIP also provides an increased capital investment in recreational and leisure programs, including open space preservation and acquisition, to enhance the quality of life in Alexandria.

LONG-TERM DEBT

At the end of fiscal year 2003, the City had \$143.6 million in outstanding general obligation bonds, a decrease of \$10.3 million, or 6.7 percent, below last year. More detailed information about the City's long-term liabilities is presented in Note 10 to the financial statements.

During 2003, the City retained its triple-A bond ratings from Moody's Investors Services, Inc. and Standard & Poor's (S&P) credit rating agencies. The City received its first triple-A rating from Moody's in 1986 and from S&P in 1992.

The Commonwealth limits the amount of general obligation debt the City can issue to ten percent of the assessed value of real property within the City. The City's outstanding debt is significantly below or less than one-tenth of this limit - which is currently \$1.8 billion.

ECONOMIC FACTORS

Job growth in the City has stabilized somewhat in FY 2003, with total employment remaining at just over 90,087 for December 2002. General business slowdowns has affected some revenues in the City so the City took several steps to encourage citizens to support City businesses, including offering free parking during the holiday season – the second year this has been done. In addition, uncertainty about state funding levels led the City Manager to direct departments to develop operating and capital budget savings plans in order to keep the City's FY 2003 budget in balance.

As of 2001 (the latest data available from the U.S. Bureau of Economic Analysis), the City's per capita income of \$49,553 remains one of the highest in the United States, and the third highest of any major jurisdiction in Virginia. The City's office vacancy stabilized somewhat at 10.9 percent by the end of FY 2003, which is lower than the office vacancy rate in Northern Virginia as well as the Washington D.C. metropolitan area.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to Daniel Neckel, Director of the City of Alexandria's Finance Department, City Hall, P.O. Box 178, Alexandria, VA 22313, telephone (703) 838-4755, or visit the City's web site at ci.alexandria.va.us.

BASIC FINANCIAL STATEMENTS



CITY OF ALEXANDRIA, VIRGINIA
Statement of Net Assets
June 30, 2003

Exhibit I

	Primary Government	
	<u>Governmental</u>	<u>Component</u>
	<u>Activities</u>	<u>Units</u>
ASSETS		
Cash and Cash Equivalents	\$ 119,021,287	\$ 25,137,320
Cash and Investments with Fiscal Agents	30,940,862	1,763,299
Receivables, Net	138,211,104	88,961
Accrued Interest	295,792	1,096
Due From Other Governments	36,526,724	2,969,085
Inventory of Supplies	1,537,404	539,087
Prepaid and Other Assets	431,838	5,761,980
Capital Assets		
Land and Construction in Progress	101,878,153	7,504,188
Other Capital Assets, Net	215,535,576	11,643,010
Capital Assets, Net	<u>\$ 317,413,729</u>	<u>\$ 19,147,198</u>
Total Assets	<u>\$ 644,378,740</u>	<u>\$ 55,408,026</u>
LIABILITIES		
Accounts Payable	\$ 11,274,464	\$ 3,456,317
Matured Coupons Payable	61,923	-
Accrued Wages	3,995,720	16,379,494
Accrued Liabilities	3,118,675	-
Deferred Revenue	150,755,779	646,618
Other Short-term Liabilities	1,429,832	212,919
Deposits	2,735,708	-
Long-term Liabilities Due Within One Year	13,815,006	328,890
Long-term Liabilities Due in More Than One Year	155,923,770	5,302,460
Total Liabilities	<u>\$ 343,110,877</u>	<u>\$ 26,326,698</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 160,598,183	\$ 19,147,198
Restricted for:		
Capital Projects	72,756,868	-
Unrestricted Assets	67,912,812	9,903,961
TOTAL NET ASSETS	<u><u>\$ 301,267,863</u></u>	<u><u>\$ 29,051,159</u></u>

See Accompanying Notes to Financial Statements

CITY OF ALEXANDRIA, VIRGINIA
Statement of Activities
For the Fiscal Year Ended June 30, 2003

Exhibit II

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
General Government	\$ 47,397,743	\$ 9,056	\$ 959,325	\$ 665,576	\$ (45,763,786)	\$ -	\$ (45,763,786)	\$ -
Judicial Administration	12,958,448	1,686,933	3,147,880	-	(8,123,635)	-	(8,123,635)	-
Public Safety	88,427,217	6,539,850	15,197,739	-	(66,689,628)	-	(66,689,628)	-
Public Works	36,930,059	9,565,681	7,089,811	18,600,981	(1,673,586)	-	(1,673,586)	-
Library	5,140,618	-	-	-	(5,140,618)	-	(5,140,618)	-
Health and Welfare	71,898,432	5,167,829	29,029,852	-	(37,700,751)	-	(37,700,751)	-
Transit	11,906,240	-	-	-	(11,906,240)	-	(11,906,240)	-
Culture and Recreation	20,751,077	1,719,560	407,129	425,423	(18,198,965)	-	(18,198,965)	-
Community Development	13,464,706	339,060	4,164,597	177,426	(8,783,623)	-	(8,783,623)	-
Education	123,351,510	-	-	-	(123,351,510)	-	(123,351,510)	-
Interest on Long-term Debt	7,084,004	-	-	-	(7,084,004)	-	(7,084,004)	-
Total Primary Government	\$ 439,310,054	\$ 25,027,969	\$ 59,996,333	\$ 19,869,406	\$ (334,416,346)	\$ -	\$ (334,416,346)	\$ -
Component units:								
Alexandria Library	\$ 5,636,600	\$ 183,368	\$ 210,208	\$ -	\$ -	\$ -	\$ -	\$ (5,243,024)
Alexandria Transit Company	7,586,574	1,775,495	136,418	-	-	-	-	(5,674,661)
Alexandria Public Schools	151,128,792	1,925,002	29,180,468	-	-	-	-	(120,023,322)
Total Component Units	\$ 164,351,966	\$ 3,883,865	\$ 29,527,094	\$ -	\$ -	\$ -	\$ -	\$ (130,941,007)
General Revenues:								
Taxes:								
General Property Taxes:								
Real Estate					\$ 189,395,241	\$ -	\$ 189,395,241	\$ -
Personal Property					31,119,034	-	31,119,034	-
Other					88,393,807	-	88,393,807	-
Transfer					955,507	(955,507)	-	-
Payment from City of Alexandria					-	-	-	136,300,087
Grants and Contributions Not Restricted to Specific Programs					29,225,817	-	29,225,817	-
Interest and Investment Earnings					3,609,460	-	3,609,460	92,583
Miscellaneous					581,673	-	581,673	91,983
Total General Revenues					<u>\$ 343,280,539</u>	<u>\$ (955,507)</u>	<u>\$ 342,325,032</u>	<u>\$ 136,484,653</u>
Change in Net Assets					\$ 8,864,193	\$ (955,507)	\$ 7,908,686	\$ 5,543,646
Net Assets at Beginning of Year					292,403,669	955,507	293,359,176	23,507,513
Net Assets at End of Year					<u>\$ 301,267,862</u>	<u>\$ -</u>	<u>\$ 301,267,862</u>	<u>\$ 29,051,159</u>

See Accompanying Notes to Financial Statements

CITY OF ALEXANDRIA, VIRGINIA
Balance Sheet
Governmental Funds
June 30, 2003

Exhibit III

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and Cash Equivalents	\$ 55,522,985	\$ 10,827,087	\$ 45,298,131	\$ 111,648,203
Cash and Investments with Fiscal Agents	1,456,113	105,463	29,379,286	30,940,862
Receivables, Net	136,164,230	1,869,448	177,426	138,211,104
Accrued Interest	295,792	-	-	295,792
Due From Other Governments	29,973,713	6,553,011	-	36,526,724
Inventory of Supplies	1,537,404	-	-	1,537,404
Prepaid and Other Assets	333,727	98,111	-	431,838
Total Assets	\$ 225,283,964	\$ 19,453,120	\$ 74,854,843	\$ 319,591,927
LIABILITIES				
Accounts Payable	\$ 6,880,927	\$ 2,134,388	\$ 1,903,430	\$ 10,918,745
Matured Coupons Payable	61,923	-	-	61,923
Accrued Wages	3,217,384	778,336	-	3,995,720
Accrued Vacation	2,047,661	-	-	2,047,661
Other Liabilities	1,412,713	-	17,119	1,429,832
Deposits	2,735,708	-	-	2,735,708
Deferred Revenue	150,809,920	3,032,909	-	153,842,829
Total Liabilities	\$ 167,166,236	\$ 5,945,633	\$ 1,920,549	\$ 175,032,418
FUND BALANCES				
Reserved for:				
Capital projects	\$ -	\$ -	\$ 63,968,631	\$ 63,968,631
Notes Receivable	-	1,745,558	177,426	1,922,984
Inventory of Supplies	1,537,404	-	-	1,537,404
Encumbrances	2,386,468	-	8,788,237	11,174,705
Unreserved	54,193,856	11,761,929	-	65,955,785
Total Fund Balances	\$ 58,117,728	\$ 13,507,487	\$ 72,934,294	\$ 144,559,509
Total Liabilities and Fund Balances	\$ 225,283,964	\$ 19,453,120	\$ 74,854,843	

Adjustments for the Statement of Net Assets:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds. (Note 5)	306,035,889
Other long-term assets are not available to pay for current period expenditures and therefore are offset by deferred revenue in the governmental funds. (Note 4)	3,087,050
Internal service funds are used by management to charge the costs of equipment replacement; and, therefore, the assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets. (Exhibit V)	18,395,205
Long-term liabilities, including bonds payable, are not reported as liabilities in the governmental funds. (Note 10)	(170,809,790)
Net Assets of Governmental Activities	\$ 301,267,863

See Accompanying Notes to Financial Statements

CITY OF ALEXANDRIA, VIRGINIA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

Exhibit IV

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES				
General Property Taxes	\$ 218,939,362	\$ -	\$ -	\$ 218,939,362
Other Local Taxes	88,119,848	-	-	88,119,848
Permits, Fees, and Licenses	2,902,316	1,632,661	-	4,534,977
Fines and Forfeitures	3,939,648	-	-	3,939,648
Use of Money & Property	5,246,678	107,318	923,595	6,277,591
Charges for Services	9,178,249	5,545,703	901,240	15,625,192
Intergovernmental Revenue	46,755,221	38,400,925	7,730,809	92,886,955
Miscellaneous	581,673	2,268,791	1,950,669	4,801,133
Total Revenues	<u>\$ 375,662,995</u>	<u>\$ 47,955,398</u>	<u>\$ 11,506,313</u>	<u>\$ 435,124,706</u>
EXPENDITURES				
Current Operating:				
General Government	\$ 31,518,048	\$ 412,548	\$ -	\$ 31,930,596
Judicial Administration	11,517,348	935,387	-	12,452,735
Public Safety	82,436,138	4,181,305	-	86,617,443
Public Works	27,674,382	2,151,474	-	29,825,856
Library Transfer	5,140,618	-	-	5,140,618
Health and Welfare	15,888,964	55,566,608	-	71,455,572
Transit and Transit Transfer	8,462,677	-	-	8,462,677
Culture and Recreation	17,073,254	339,635	-	17,412,889
Community Development	7,022,600	5,067,855	-	12,090,455
Education and Transfer to School	115,342,926	-	7,552,027	122,894,953
Debt Service:				
Principal	10,427,596	-	-	10,427,596
Interest and Other Charges	7,173,024	-	-	7,173,024
Capital Outlay	-	-	49,364,103	49,364,103
Total Expenditures	<u>\$ 339,677,575</u>	<u>\$ 68,654,812</u>	<u>\$ 56,916,130</u>	<u>\$ 465,248,517</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 35,985,420</u>	<u>\$ (20,699,414)</u>	<u>\$ (45,409,817)</u>	<u>\$ (30,123,811)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ 893,601	\$ 20,947,187	\$ 26,184,593	\$ 48,025,381
Transfers Out	(47,047,187)	(562,756)	-	(47,609,943)
Total Other Financing Sources and Uses	<u>\$ (46,153,586)</u>	<u>\$ 20,384,431</u>	<u>\$ 26,184,593</u>	<u>\$ 415,438</u>
Net Change in Fund Balance	\$ (10,168,166)	\$ (314,983)	\$ (19,225,224)	\$ (29,708,373)
Fund Balance at Beginning of Year	68,228,659	13,822,470	92,159,518	
Decrease in Reserve for Inventory	57,235	-	-	57,235
Fund Balance at End of Year	<u>\$ 58,117,728</u>	<u>\$ 13,507,487</u>	<u>\$ 72,934,294</u>	

Adjustments for the Statement of Activities:

Repayment of bond principal is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	\$ 10,427,596
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which new capital assets exceeded capital expenditures in the current period. (Note 5)	26,536,444
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. (Note 4)	1,848,872
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. (Note 10)	(3,767,060)
Internal service funds are used by management to charge the costs of certain equipment to individual funds. The net revenue of the internal service fund (except depreciation which is reported in capital outlays above) is reported with governmental activities. (Exhibit VI)	3,469,479
Change in Net Assets of Governmental Activities	<u>\$ 8,864,193</u>

See Accompanying Notes to Financial Statements

CITY OF ALEXANDRIA, VIRGINIA
Statement of Net Assets
Proprietary Funds
June 30, 2003

Exhibit V

	Governmental Activities
	Internal Service Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 7,373,084
Total Current Assets	\$ 7,373,084
Noncurrent Assets:	
Capital Assets:	
Buildings and Equipment	\$ 31,389,384
Less Accumulated Depreciation	(20,011,544)
Capital Assets, Net	\$ 11,377,840
Total Assets	\$ 18,750,924
 LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 355,719
Total Current Liabilities	\$ 355,719
Total Liabilities	\$ 355,719
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	\$ 11,377,840
Unrestricted	7,017,365
Total Net Assets	\$ 18,395,205
Total Liabilities and Net Assets	\$ 18,750,924

See Accompanying Notes to Financial Statements

CITY OF ALEXANDRIA, VIRGINIA
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2003

Exhibit VI

	Business-Type Activities	Governmental Activities
	Recycling	Internal Service Fund
Operating Revenues:		
Charges for Services	\$ -	\$ 4,265,658
Total Operating Revenues	\$ -	\$ 4,265,658
Operating Expenses:		
Materials and Supplies	\$ -	\$ 1,302,680
Depreciation		2,606,888
Total Operating Expenses	\$ -	\$ 3,909,568
Operating Income	\$ -	\$ 356,090
Nonoperating Revenues (Expenses):		
Loss on Disposal of Fixed Assets	\$ -	\$ (33,567)
Total Nonoperating Expenses	\$ -	\$ (33,567)
Net Income (Loss) Before Transfers	\$ -	\$ 322,523
Transfers In (Out)	(955,507)	540,069
Change in Net Assets	\$ (955,507)	\$ 862,592
Total Net Assets at Beginning of Year	955,507	17,532,613
Total Net Assets at End of Year	\$ -	\$ 18,395,205

See Accompanying Notes to Financial Statements

CITY OF ALEXANDRIA, VIRGINIA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2003

Exhibit VII

	Business-Type Activities	Governmental Activities
	Recycling Fund	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts From Customers	\$ 21,158	\$ 4,265,658
Payments to Suppliers	(3,083)	(1,383,523)
Payments to Employees	(32,579)	-
Net Cash Provided (Used) by Operating Activities	\$ (14,504)	\$ 2,882,135
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating Subsidies and Transfers from/(to) Other Funds	\$ (893,601)	\$ 478,163
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	\$ -	\$ (3,781,431)
Net Cash (Used) By Capital and Related Financing Activities	\$ -	\$ (3,781,431)
Net (Decrease) in Cash and Cash Equivalents	\$ (908,105)	\$ (421,133)
Cash and Cash Equivalents at Beginning of Year	908,105	7,794,217
Cash and Cash Equivalents at End of Year	\$ -	\$ 7,373,084
 Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used) Operating Activities		
Operating Income (Loss)	\$ -	\$ 356,090
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense		2,606,888
Change in Assets and Liabilities:		
Receivables	21,158	-
Prepaid and Other Assets		2,171
Accounts Payable	(3,083)	(83,015)
Accrued Liabilities	(5,990)	-
Other Liabilities	(26,589)	-
Net Cash Provided by (Used in) Operating Activities	\$ (14,504)	\$ 2,882,134

Noncash investing, capital and financing activities:

Capital assets with a net book value of \$33,567 were retired in non-cash transactions during the year in the Internal Service Fund.

See Accompanying Notes to Financial Statements

City of Alexandria, Virginia
Statement of Fiduciary Net Assets
June 30, 2003

Exhibit VIII

	Employee Retirement Plans	Private- Purpose Trusts	Agency Funds
ASSETS			
Cash and Short-term Investments	\$ -	\$ 5,101	\$ 23,032
Investments, at Fair Value:			
U.S. Government Obligations	5,090,677	-	347,512
Repurchase Agreements	-	-	163,535
Mutual Funds	53,787,313	-	-
Corporate Stocks	31,325,661	-	-
Guaranteed Investment Accounts	106,427,870	-	-
Domestic Corporate Bonds	2,077,759	-	-
Other Investments	583,574	-	-
Total Investments	<u>\$ 199,292,854</u>	<u>\$ -</u>	<u>\$ 511,047</u>
Total Assets	<u>\$ 199,292,854</u>	<u>\$ 5,101</u>	<u>\$ 534,079</u>
LIABILITIES			
Refunds Payable and Other	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 534,079</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 534,079</u>
NET ASSETS			
Held in Trust for Pension Benefits and Other Purposes	<u>\$ 199,292,854</u>	<u>\$ 5,101</u>	

See Accompanying Notes to Financial Statements

City of Alexandria, Virginia
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2003

Exhibit IX

CHANGES IN NET ASSETS	Employee Retirement Plans	Private- Purpose Trusts
	Plans	Trusts
ADDITIONS		
Contributions:		
Employer	\$ 9,013,008	\$ -
Plan Members	2,146,355	-
Total Contributions	\$ 11,159,363	\$ -
Investment Earnings:		
Net Depreciation in Fair Value of Investments	\$ (275,176)	\$ -
Interest	5,448,638	78
Total Investment Earnings	\$ 5,173,462	\$ 78
Less Investment Expense	62,677	-
Net Investment Income	\$ 5,110,785	\$ 78
Total Additions	\$ 16,270,148	\$ 78
DEDUCTIONS		
Benefits	\$ 6,674,863	\$ 500
Refunds of Contributions	3,040,679	-
Administrative Expenses	143,594	-
Total Deductions	\$ 9,859,136	\$ 500
Change in Net Assets	\$ 6,411,012	\$ (422)
Net Assets at Beginning of Year	192,881,842	5,523
Net Assets at End of Year	\$ 199,292,854	\$ 5,101

See Accompanying Notes to Financial Statements

CITY OF ALEXANDRIA, VIRGINIA
Statement of Net Assets
Component Units
June 30, 2003

Exhibit X

	School Board	Library	Transit	Total
ASSETS				
Cash and Cash Equivalents	\$ 22,710,537	\$ 7,084	\$ 2,419,699	\$ 25,137,320
Cash and Investments with Fiscal Agents	-	1,763,299	-	1,763,299
Receivables	51,423	-	37,538	88,961
Accrued Interest	-	1,096	-	1,096
Due from Other Governments	2,832,039	-	137,046	2,969,085
Inventory of Supplies	217,231	-	321,856	539,087
Prepaid and Other Assets	5,761,236	-	744	5,761,980
Capital assets				
Land and Construction in Progress	999,381	-	6,504,807	7,504,188
Other Capital Assets, Net	5,036,752	-	6,606,258	11,643,010
Capital Assets, Net	6,036,133	-	13,111,065	19,147,198
 Total Assets	 \$ 37,608,599	 \$ 1,771,479	 \$ 16,027,948	 \$ 55,408,026
LIABILITIES				
Accounts Payable	\$ 3,242,167	\$ -	\$ 214,150	\$ 3,456,317
Accrued Wages	16,093,621	94,556	191,317	16,379,494
Deferred Revenue	646,618	-	-	646,618
Other Short-term Liabilities	-	-	212,919	212,919
Long-term Liabilities Due Within One Year	328,890	-	-	328,890
Long-term Liabilities Due in More Than One Year	5,302,460	-	-	5,302,460
Total Liabilities	\$ 25,613,756	\$ 94,556	\$ 618,386	\$ 26,326,698
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	\$ 6,036,133	\$ -	\$ 13,111,065	\$ 19,147,198
Unrestricted Assets	5,958,709	1,646,755	2,298,497	9,903,961
TOTAL NET ASSETS	\$ 11,994,842	\$ 1,646,755	\$ 15,409,562	\$ 29,051,159

See Accompanying Notes to Financial Statements

CITY OF ALEXANDRIA, VIRGINIA
Statements of Activities
Component Units
For the Year Ended June 30, 2003

Exhibit XI

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>School Board</u>	<u>Library</u>	<u>Transit</u>	<u>Totals</u>
School Board							
Instructional	\$ 151,128,792	\$ 1,925,002	\$ 29,180,468	\$ (120,023,322)	\$ -	\$ -	\$ (120,023,322)
Total School Board	<u>\$ 151,128,792</u>	<u>\$ 1,925,002</u>	<u>\$ 29,180,468</u>	<u>\$ (120,023,322)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (120,023,322)</u>
Library	\$ 5,636,600	\$ 183,368	\$ 210,208	\$ -	\$ (5,243,024)	\$ -	\$ (5,243,024)
Transit	7,586,574	1,775,495	136,418	-	-	(5,674,661)	(5,674,661)
Total Component Units	<u>\$ 164,351,966</u>	<u>\$ 3,883,865</u>	<u>\$ 29,527,094</u>	<u>\$ -</u>	<u>\$ (5,243,024)</u>	<u>\$ (5,674,661)</u>	<u>\$ (130,941,007)</u>
General Revenues:							
Payment From City				\$ 115,329,680	\$ 5,140,618	\$ 4,834,200	\$ 125,304,498
Capital Payment From City				7,552,027	-	-	7,552,027
Capital Contribution From City				-	-	3,443,562	3,443,562
Interest and Investment Earnings				-	92,583	-	92,583
Miscellaneous				45,450	29,138	17,395	91,983
Total General Revenues				<u>\$ 122,927,157</u>	<u>\$ 5,262,339</u>	<u>\$ 8,295,157</u>	<u>\$ 136,484,653</u>
Change in Net Assets				\$ 2,903,835	\$ 19,315	\$ 2,620,496	\$ 5,543,646
Net Assets Beginning of Year				9,091,007	1,627,440	12,789,066	23,507,513
Net Assets End of Year				<u>\$ 11,994,842</u>	<u>\$ 1,646,755</u>	<u>\$ 15,409,562</u>	<u>\$ 29,051,159</u>

See Accompanying Notes to Financial Statements

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Narrative Profile

The City of Alexandria, located in northern Virginia and bordered by the District of Columbia (Potomac River) and Arlington and Fairfax Counties, was founded in 1749 and incorporated in 1779. With a population of 135,000 and a land area of 15.75 square miles, Alexandria is the 7th largest city in the Commonwealth of Virginia and one of the most densely populated cities in the Commonwealth.

The City is governed under the City Manager-Council form of government. Alexandria engages in a comprehensive range of municipal services, including general government administration, public safety and administration of justice, education, health, welfare, housing and human service programs, transportation and environmental services, planning, community development and recreation, cultural, library, and historic activities.

The financial statements of the City of Alexandria, Virginia have been prepared in conformity with the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, and the accounting principles generally accepted in the United States of America (GAAP) as specified by the Governmental Accounting Standards Board. The more significant of the City's accounting policies are described below.

A. Financial Reporting Entity

The City follows GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. GASB Statement No. 34 requires the following new financial statement components:

Management's Discussion and Analysis – A narrative introduction and analytical overview of the government's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

Government-wide financial statements – These include financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter. The government-wide statements include the Statement of Net Assets and the Statement of Activities.

Statement of Net Assets – The Statement of Net Assets displays the financial position of the primary government (government and business-type activities) and its discretely presented component units. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense – the cost of “using up” capital assets – in the Statement of Activities. The net assets of a government are broken down into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities – The statement of activities reports expenses and revenues in a format that focuses on the cost of each of the City's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements – The fund financial statements display the financial transaction and account of the City based on funds. He operation of each fund is considered to be an independent accounting entity. The fund financial statements also include a reconciliation to the government wide statement, which briefly explains the differences between the fund and government-wide financial statements.

Budgetary comparison schedules – Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The City revises its original budget over the course of the year for a variety of reasons.

As required by GAAP, these financial statements present the primary government and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The City has no component units that meet the requirements for blending. The discretely presented component units, on the other hand, are reported in a separate column in the government-wide statements to emphasize they are legally separate from the primary government. Each discretely presented component unit has a June 30 fiscal year-end.

Component Units:

City of Alexandria School Board

Since Fiscal Year 1995, the School Board has been elected. The School Board is substantially reliant upon the City because City Council approves the School Board's total annual budget appropriation, levies taxes, and issues debt for school projects. The legal liability for the general obligation debt issued for school capital assets remains with the City. The City's primary transaction with the School Board is the City's annual General Fund revenue support, which totaled \$115 million for operations and \$8 million for equipment in FY 2003.

The APA establishes financial reporting requirements for all localities in the Commonwealth of Virginia. The APA has determined that all Virginia School Boards shall be reported as discretely presented component units of the locality. The APA has also specified additional reporting requirements with respect to School Boards.

City of Alexandria Library System

City Council appoints the Library Board and approves the budget. The City is responsible for issuing debt, and acquiring and maintaining all capital items on behalf of the Library. The legal liability for the general obligation debt issued on behalf of the Library remains with the City. The City's primary transaction with the Library is the City's annual support, which was \$5.1 million for FY 2003.

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Alexandria Transit Company

The City Council, acting as sole shareholder, elects members of the Alexandria Transit Company's board of directors. City Council approves bus routes, fares, and budgets. The City funds deficits and may issue debt on behalf of the Alexandria Transit Company. The City's primary transactions with the Alexandria Transit Company are the City's annual subsidy, which was \$4.8 million and a capital contribution, which was \$3.4 million in FY 2003.

Complete financial statements for the School Board and Library component units may be obtained at each entity's administrative offices. The Alexandria Transit Company does not issue separate financial statements.

City of Alexandria School Board
2000 North Beauregard Street
Alexandria, Virginia 22311

City of Alexandria Library System
5005 Duke Street
Alexandria, Virginia 22304-2903

Excluded from Entity:

City Council is not financially accountable for the Deferred Compensation Plan, Alexandria Economic Development Partnership, Alexandria Industrial Development Authority, Alexandria Redevelopment and Housing Authority, Alexandria Sanitation Authority, or Sheltered Homes of Alexandria, Inc. Accordingly, these entities are excluded from the City of Alexandria's financial statements.

B. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The reporting model focus is on both the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by category) and the component units. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. In the government-wide Statement of Net Assets, the governmental activities column (a) is presented on a combined basis, and (b) is reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Both government-wide and fund financial statements presentations provide valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the financial information. The City generally uses restricted assets first for expenses incurred for which both restricted and unrestricted assets are available. The City may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) that are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.). 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 operation or capital requirements of a particular function

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

or segment. Taxes and other items not included among program revenues are reported as general revenues. The City does not allocate indirect expenses. The operating grants and contributions column includes operating-specific and discretionary (either operating or capital) grants while the capital grants and contributions column reflects capital-specific grants.

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities, fund balances and net assets, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental activities column of the government-wide financial statements.

The City's fiduciary funds are presented in the fund financial statements by type (pension, private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements. The following is a brief description of the specific funds used by the City in FY 2003.

1. Governmental Funds

Governmental Funds are those through which most governmental functions typically are financed.

a. General Fund

The General Fund is the primary operating fund of the City. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, and interest income. A significant part of the General Fund's revenues is used principally to finance the operations of the City of Alexandria School Board.

b. Special Revenue Fund

The Special Revenue Fund accounts for revenue derived from specific sources (other than major capital projects) that are restricted by legal and regulatory provisions to finance specific activities. The Special Revenue Fund is considered a major fund for reporting purposes.

c. Capital Projects Fund

The Capital Project Fund accounts for all financial resources used for the acquisition or construction of major capital facilities not being financed by proprietary funds. The Capital Projects fund is considered a major fund for government-wide reporting purposes.

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Proprietary Funds

Proprietary Funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and payments relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Operating revenues include charges for services. Operating expenses include costs of services as well as, materials, contracts, personnel, and depreciation. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, the City has elected to follow GASB statements issued after November 30, 1989, rather than the Financial Accounting Standards Board, in accounting for proprietary funds to the extent these standards do not conflict with or contradict guidance of the GASB.

a. Enterprise Fund or Business Funds

The Enterprise Fund accounts for operations that are financed in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City's Enterprise Fund accounts for the operations of the City's recycling program. Because the user charges to provide these services no longer covers the cost of providing recycling services, the enterprise fund and associated revenues and expenditures were transferred to the General Fund and Internal Service Fund in fiscal year 2003.

b. Internal Service Fund

The Internal Service Fund accounts for the financing of goods or services provided by one department to other departments or agencies of the City on a cost-reimbursement basis. The City established the Equipment Replacement Reserve Account, an internal service fund, for the purpose of providing for the accumulation of funds to replace capital equipment items used in City operations. This internal service fund derives its funding from periodic equipment rental charges assessed to the user departments in the governmental funds. This funding is then used to replace capital equipment when the need arises. The internal service fund is included in governmental activities for government-wide reporting purposes. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The excess revenue or expenses for the fund are allocated to the appropriate functional activity.

3. Fiduciary Funds

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other governments. The Fiduciary Funds of the City are the John D. Collins Private Purpose Trust Fund, Employee Retirement Funds, the Mental Health Client Account, the Human Services Special Welfare Account, the Human Services Dedicated Account, and the Industrial Development Authority Agency Funds. For accounting measurement purposes, the Private Purpose Trust Fund and the Employee Retirement Funds are accounted for in essentially the same manner as proprietary funds. Private Purpose Trust Funds account for assets of which the principal may not be spent. The Employee Retirement Funds account for the assets of the City's pension plans. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds are not included in the government-wide financial statements.

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet in the funds statements. Long-term assets and long term liabilities are included in the government-wide statements. Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide statement of net assets and statement of activities, all proprietary funds, and private purpose trust funds and pension trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are either included on the statement of net assets or on the statement of fiduciary net assets. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The statement of net assets, statement of activities, financial statement of the Proprietary Fund and Fiduciary Funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

The fund financial statements of the General, Special Revenue, and Capital Projects funds are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term "available" is limited to collection within forty-five days of the fiscal year-end. Levies made prior to the fiscal year-end but which are not available are deferred. Interest income is recorded as earned. Federal and State reimbursement-type grants revenue is considered to be measurable and available as revenue when reimbursement for related eligible expenditures are collected within a year of the date the expenditure incurred. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

D. Budgets and Budgetary Accounting

The City Council annually adopts budgets for the General Fund and Special Revenue Fund of the primary government. All appropriations are legally controlled at the departmental level for the General Fund and Special Revenue Fund. The School Board appropriation is determined by the City Council and controlled in total by the primary government. On June 14, 2002, the City Council formally approved the original adopted budget (which had been initially approved on May 6, 2002) and on June 24, 2003 approved the revised budget reflected in the financial statements. Budgets are prepared for the Capital Projects Fund on a project basis, which covers the life of the project. A Capital Projects Fund appropriation does not lapse until approved by City Council.

Encumbrances

Encumbrance accounting, the recording of purchase orders, contracts, and other monetary commitments in order to reserve an applicable portion of an appropriation, is used as an extension of formal budgetary control in the General and Capital Projects Funds. Encumbrances outstanding at year-end are reported as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

subsequent fiscal year. These encumbrances are subject to reappropriation by Council ordinance in the succeeding fiscal year.

E. Equity in Pooled Cash and Investments

Cash resources of the individual funds, including imprest cash of \$18,215 and excluding cash held with fiscal agents in the General Fund, Special Revenue Fund, Capital Projects Fund, Proprietary Funds, Fiduciary Funds, and discretely presented component units (School Board, Library, and Alexandria Transit Company), are combined to form a pool of cash and investments to maximize interest earnings. Investments in the pool consist of repurchase agreements, commercial paper, and obligations of the Federal Government and are recorded at fair value. Income from pooled investments is allocated only when contractually or legally required. All investment earnings not legally or contractually required to be credited to individual accounts or funds are credited to the General Fund.

The Library maintains separate cash and investment accounts consisting of cash and obligations of the federal government and corporate bonds and stocks recorded at fair value. All cash and investments held with fiscal agents for the primary government and its discretely presented component units are recorded at fair value.

For purposes of the statement of cash flows, the Proprietary Funds, and Alexandria Transit Company, consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

The fair value of investments is based on quoted market prices; no investments are valued at cost. All investments in external investment pools are reported at fair value.

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance at June 30, 2003, is comprised of the following:

GENERAL FUND:	
Taxes Receivable:	
Property	\$ 857,715
Personal	28,296,282
Penalties and Interest	<u>2,629,654</u>
Total taxes	<u>\$ 31,783,651</u>
Accounts Receivable	\$ 23,599
Notes Receivable	<u>9,000</u>
	<u>\$ 31,816,250</u>
SPECIAL REVENUE FUND:	
Notes Receivable	<u>\$ 1,999,019</u>

The capital projects and component units' accounts receivable are considered fully collectible and therefore an allowance for uncollectible accounts is not applicable to those receivables.

G. Inventory of Supplies and Prepaid and Other Assets

Primary Government

Inventories of consumable supplies are recorded at cost (determined on a first in, first out basis). Inventory in the General Fund consists of expendable supplies held for consumption. The costs are recorded as expenditures under the purchase method. Reported inventories in the General Fund are equally offset by a reservation of fund balance. Purchases of non-inventory items are recorded as expenses or expenditures under the purchase method. Prepaid expenditures in reimbursable grants are offset by deferred revenues until expenses or expenditures are recognized.

Component Units

Inventory for the School Board is comprised of food and commodities on hand pertaining to the National School Lunch program. Inventories of consumable supplies are recorded at cost (determined on a first in, first out basis). Inventories are recorded at fair market value when received and the costs are recorded as an expense or expenditure under the consumption method.

Inventory for the Alexandria Transit Company is comprised of parts and operating materials held for consumption. These inventories are costed by methods that approximate average cost or market value, whichever is lower.

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets

Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold of \$5,000 is met. Depreciation is recorded on general fixed assets on a government-wide basis using the straight-line method and the following estimated useful lives:

Buildings	40 years
Infrastructure	25 years
Furniture and Other Equipment	3-20 years

To the extent the City's capitalization threshold of \$5,000 is met, capital outlays of the Proprietary Funds are recorded as fixed assets and depreciated over their estimated useful lives on a straight-line basis on both the funds basis and the government-wide basis using the straight-line method and the following estimated useful lives:

Leasehold Improvements	3-40 years
Equipment.....	3-20 years

All fixed assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated. The City does not capitalize historical treasures or works of art. The City maintains many items and buildings of historical significance. The City uses the proceeds from the sale of historical treasures or works of art to acquire other items for the collection.

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

I. Compensated Absences

The City accrues compensated absences (annual and sick leave benefits) when vested. The current portions of the governmental funds' compensated absences liabilities are recorded as other liabilities in the General and Special Revenue Funds. The current and noncurrent portions are recorded in the government-wide financial statements. This includes the discretely presented component unit Library, since the City funds all library personnel costs.

The component unit School Board accrues compensated absences (annual and sick leave benefits) when vested. The current and noncurrent portions of compensated absences are recorded in the School Board component unit government-wide financial statements.

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Fund Balance

Reservations of Fund Balance

Except for those required to comply with accounting standards, all reservations and designations of fund balances reflect City Council action in the context of adoption of the City's budget.

Notes Receivable - These monies have been reserved for notes receivable not expected to mature in the current fiscal year.

Inventory of Supplies - These monies have been reserved for reported inventories in the General Fund to comply with accounting standards.

Encumbrances - These monies have been reserved for goods and services encumbered, or ordered, before the end of the fiscal year, for which delivery of goods and services had not been made prior to the close of the fiscal year.

Approved Capital Projects - These monies are reserved for Capital Projects that City Council has already approved.

Designations of Fund Balance

General Fund designations at June 30, 2003 consisted of the following:

Subsequent Fiscal Year's Operating Budgets	
- 2004	\$ 6,000,000
- 2005	1,758,449
Subsequent Fiscal Years' Capital Program	
2004 - 2009	4,200,000
Self-Insurance	5,000,000
Compensated Absences	7,208,635
Open Space	953,000
Recycling	564,323
Ongoing Projects	<u>1,184,951</u>
Total Designations	<u>\$ 26,869,358</u>

Subsequent Year's Operating Budget - On June 14, 2003, City Council approved the Fiscal Year 2004 Appropriations Ordinance, which appropriated \$6.0 million of General Fund Balance to meet anticipated expenditures. \$1.8 million has been designated for Fiscal Year 2005.

Subsequent Years' Capital Program - These monies (\$4.2 million) have been designated in the Approved Fiscal Year 2004 Budget (Annual Capital Improvement Program Funding Plan) to fund that portion of the capital improvement program in FY 2004 and beyond. This is in addition to \$14.4 million previously designated and transferred in FY 2003.

CITY OF ALEXANDRIA, VIRGINIA
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June 30, 2003

Exhibit XII

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Self - Insurance - These monies (\$5.0 million) have been designated for reserves for the City's self-insurance fund.

Compensated Absences - These monies (\$7.2 million) are designated to ensure the General Fund maintains a designated balance sufficient to help fund a portion of compensated absences earned by employees of the primary government and school component unit. This represents 37 percent of the FY 2003 long-term liability in accordance with the FY 2004 budget approved by City Council in April 2003.

Open Space - These monies (\$0.9 million) City Council approved allocating the taxes from one cent of the real estate tax for the acquisition of open space.

Recycling - These monies (\$0.6 million) represent the fund balance of the Recycling Fund transferred to the General Fund and Internal Service Fund in Fiscal Year 2003.

Ongoing Projects - These monies (\$1.2 million) have been set aside for projects funded by the City Council in the FY 2003 budget but not completed as of the end of the fiscal year.

NOTE 2. LEGAL COMPLIANCE - BUDGETS

After a public hearing and several work sessions, the City Council adopts an annual budget no later than June 27 for the succeeding fiscal year to commence July 1. Transfers of appropriations among departments or projects are made throughout the fiscal year by the City Council. The City Council may also approve supplemental appropriations. In fiscal year 2003, the Council approved a reappropriation of prior fiscal year encumbrances as well as various other supplemental appropriations. The City Manager has authority to transfer appropriations within each department. In fiscal year 2003, a number of intradepartmental transfers were made.

NOTE 3. DEPOSITS AND INVESTMENTS

The City maintains a pool of cash and investments in which each fund participates on a dollar equivalent and daily transaction basis. Interest is distributed monthly based on average monthly balances. A "zero balance account" mechanism provides for daily sweeps of deposits made to City checking accounts, resulting in an instantaneous transfer to the investment account. Thus, the majority of funds in the City's general account are invested at all times. Exceptions to this are funds in the Library System's checking account, the School Student Activity Fund account, and some bank accounts administered by the Human Services Department. The City's pooled portfolio also excludes pension plans.

A. Deposits

Primary Government

At June 30, 2003, the carrying value of the City's deposits was \$4,656,788 and the bank balance was \$7,837,237. The entire bank balance was covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (The Act). The Act provides for the pooling of collateral pledged with the Treasurer of Virginia to secure public deposits as a class. No specific collateral can be identified as security for one public depositor and public depositors are prohibited from holding collateral in their name as security for deposits. The State Treasury Board is responsible for monitoring compliance with the collateralization

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

and reporting requirements of The Act and for notifying local governments of compliance by banks and savings and loan associations. A multiple financial institution collateral pool that provides for additional assessments is similar to depository insurance. If any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. If the value of the pool's collateral were inadequate to cover the loss, additional amounts would be assessed on a pro rata basis to the members of the pool. Funds deposited in accordance with the requirements of The Act are considered fully secured.

Component Units

The carrying value of deposits for the School Board was negative \$2,756,388 and the bank balance was \$439,343. The entire bank balance was covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act as defined above.

At June 30, 2003, the carrying value of deposits and bank balance for the Library was \$105,965. Only \$41,451 of the bank balance was covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act as defined above. The remaining balance, \$64,514, was uninsured and uncollateralized.

Transit deposits are included in the City's pooled cash and investments.

B. Investments

State statutes authorize the City to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool. The City's current investment policy limits investments to obligations of the United States and agencies thereof, commercial paper, and repurchase agreements fully collateralized in obligations of the United States and agencies thereof. During the fiscal year, the City had investments in repurchase agreements, and obligations of the United States and agencies thereof.

A designated portfolio manager placed the City's investments during fiscal year 2003. The City has a contract with the portfolio manager which requires that, at the time funds are invested, collateral for repurchase agreements be held in the City's name by a custodial agent for the term of the agreement and investments in obligations of the United States or its agencies be held by the Federal Reserve in a custodial account.

The City and its discretely presented component units maintain nine pension plans. The plan allows the assets of the pension plans to be invested by the pension carriers in accordance with provisions of the Code of the Commonwealth of Virginia.

The City adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures* during the fiscal year ended June 30, 2003. The City's and its discretely presented component units' investments are subject to interest rate, credit and custodial risk as described below:

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 at least half of the City's investment portfolio to maturities of less than one year.

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Credit Risk - State Statutes authorize the City to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivision thereof, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers acceptances, repurchase agreements, and State Treasurers Local Government Investment Pool. The City's current investment policy limits investments to obligations of the United States and agencies thereof, commercial paper, and repurchase agreements fully collateralized in the Obligations of the United States and agencies thereof. During the fiscal year, the City made investments in repurchase agreements and Obligations of the United States and agencies thereof. The investments, for four of the City's six pension plans, are handled by CIGNA Corporation, a company with an A (Excellent) rating, one of the top three, by A.M. Best rating agency. The investments for the two defined contribution plans are directed by employees and are invested in U.S. equities and guaranteed investment accounts and the City has directed CIGNA to invest funds for the other two defined benefit pension plans in guaranteed investment accounts and U.S. equities. The Commonwealth of Virginia manages the investments of the Virginia Retirement System (VRS) and the City has contracted with Suntrust Bank to handle investments for the Fire and Police Disability income plan mostly in bonds (U.S., Municipal and corporate) and domestic equities.

Custodial Risk - For an investment, custodial risk is the risk that in the event of the failure of the counter party the City will not be able to recover the value of its investments or collateral securities that are in the possession of outside party. A designated portfolio manager placed the City's investments during the fiscal year 2003. The City has a contract with the portfolio manager which requires that, at the time funds are invested, collateral for repurchase agreements be held in the city's name by a custodial agent for the term of the agreement and investments in obligations of the United States or its agencies be held by the Federal Reserve in a custodial account. Any funds not invested at the end of the day are placed in overnight repurchase agreements in the City's name.

As of June 30, 2003, the City had the following investments and maturities:

Primary Government

	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>		
		<u>Less than 1 year</u>	<u>1-5 years</u>	<u>Long term</u>
Repurchase Agreement	\$ 36,930,107	\$ 36,930,107	\$ ---	\$ ---
U.S. Treasuries	9,096,828	4,048,998	5,047,830	---
U.S. Government Agencies	<u>68,853,712</u>	<u>60,343,393</u>	<u>8,510,319</u>	<u>---</u>
Total Investments Controlled by City	\$ 114,880,647	\$ 101,322,498	\$ 13,558,149	\$ ---
Pension Plan Investments:	<u>\$ 199,292,854</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 199,292,854</u>
Total	\$ 314,173,501	\$ 101,322,498	\$ 13,558,149	\$ 199,292,854

Reconciliation to Total Cash and Investments:

Add:

Cash on Hand and in Banks	4,656,788
Cash in Custody of Others	29,569,704
Cash With Fiscal Agent	<u>1,394,190</u>
Total Deposits and Investments	<u>\$ 349,794,183</u>

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Component Unit
School Board

	<u>Investment Maturities (in years)</u>		
	<u>Fair Value</u>	<u>Less than 1 year</u>	<u>1-5 years</u>
Repurchase Agreement	\$ 8,186,660	\$ 8,186,660	\$ ---
U.S. Treasuries	2,016,607	897,592	1,119,015
U.S. Government Agencies	15,263,658	13,377,070	1,886,588
Total Investments Controlled by City	<u>\$ 25,466,925</u>	<u>\$ 22,461,322</u>	<u>\$ 3,005,603</u>

The cash and investments for the Schools' fiduciary responsibilities are not included in the basic financial statements in accordance with the governmental accounting principles. The financial statements for the Schools' fiduciary responsibilities are available from the School Board.

Other Component Units

	<u>Investment Maturities (in years)</u>		
	<u>Fair Value</u>	<u>Less than 1 year</u>	<u>1-5 years</u>
Repurchase Agreement	\$ 780,126	\$ 780,126	\$ ---
U.S. Treasuries	192,165	85,533	106,632
U.S. Government Agencies	1,454,492	1,274,717	179,775
Total Investments Controlled by City	<u>\$ 2,426,783</u>	<u>\$ 2,140,376</u>	<u>\$ 286,407</u>

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Reconciliation of total deposits and investments to the government-wide financial statements at June 30, 2003:

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Fiduciary</u> <u>Responsibilities</u>	<u>Total</u>
Primary Government				
Cash on Hand and In Banks	\$ 4,656,788	\$ ---	\$ ---	\$ 4,656,788
Cash and Investments	114,364,499	---	516,148	114,880,647
Cash and Investments with Fiscal Agents	1,394,190	---	199,292,854	200,687,044
Cash and Investments in Custody of Others	29,546,672	---	23,032	29,569,704
Total	<u>\$ 149,962,149</u>	<u>\$ ---</u>	<u>\$ 199,832,034</u>	<u>\$ 349,794,183</u>
Component Unit Schools				
Cash on Hand and In Banks	\$ (2,756,388)	\$ ---	---	\$ (2,756,388)
Cash and Investments	25,466,925	---	---	25,466,925
Total	<u>\$ 22,710,537</u>	<u>\$ ---</u>	<u>---</u>	<u>\$ 22,710,537</u>
Other Component Units				
Cash on Hand and In Banks	\$ 105,965	\$ ---	\$ ---	\$ 105,965
Cash and Investments	7,084	2,419,699	---	2,426,783
Cash and Investments with Fiscal Agents	1,657,334	---	---	1,657,334
Total	<u>\$ 1,770,383</u>	<u>\$ 2,419,699</u>	<u>\$ ---</u>	<u>\$ 4,190,082</u>
Grand Total				<u>\$ 376,694,802</u>

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 4. RECEIVABLES

Receivables at June 30, 2003 consist of the following:

	Governmental Activities			Total
	General	Special Revenue	Capital Projects Fund	
Interest	\$ 295,792	\$ ---	\$ ---	\$ 295,792
Taxes				
Real Property	103,498,811	---	---	103,498,811
Personal Property	50,554,376	---	---	50,554,376
Penalties and interest	3,889,126	---	---	3,889,126
Other taxes	978,417	---	---	978,417
Total Taxes	\$ 158,920,730	\$ ---	\$ ---	\$ 158,920,730
Accounts	9,050,750	123,890	---	9,174,640
Intergovernmental	29,973,713	6,553,011	---	36,526,724
Notes	9,000	3,744,577	177,426	3,931,003
Gross receivables	\$ 198,249,985	\$ 10,421,478	\$ 177,426	\$ 208,848,889
Less: Allowance for Uncollectibles	31,816,250	1,999,019	---	33,815,269
Net Receivables	\$ 166,433,735	\$ 8,422,459	\$ 177,426	\$ 175,033,620

The taxes receivable account represents the current and past four years of uncollected tax levies for personal property taxes and the current and past nineteen years for uncollected tax levies on real property. The allowance for estimated uncollectible taxes receivable is 20.0 percent of the total taxes receivable at June 30, 2003 and is based on historical collection rates.

Long-term assets on a government-wide basis include taxes receivable of \$3.1 million that are not available to pay for current period expenditures and, therefore, are offset by the deferred revenue for the governmental funds. Tax revenues and the corresponding deferred revenue reported on a government-wide basis include \$1.8 million of taxes are not current financial resources, and therefore, are not required to be reported in the governmental funds.

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 4. RECEIVABLES (Continued)

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental Funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of FY 2003 deferred revenue in the governmental funds consisted of the following:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Delinquent property taxes, net of related allowances	\$ 149,414,503	\$ 1,395,417	\$ 150,809,920
Grant proceeds received prior to completion of eligibility requirements	---	3,032,909	3,032,909
Total deferred revenue for governmental funds	<u>\$ 149,414,503</u>	<u>\$ 4,428,326</u>	<u>\$ 153,842,829</u>

Component Units

Receivables at June 30, 2003 consist of following:

	<u>School Board</u>	<u>Library</u>	<u>Transit</u>	<u>Total</u>
Interest	\$ ---	\$ 1,096	\$ ---	\$ 1,096
Accounts	51,423	---	37,538	88,961
Intergovernmental	2,832,039	---	137,046	2,969,085
Total Receivables	<u>\$ 2,883,462</u>	<u>\$ 1,096</u>	<u>\$ 174,584</u>	<u>\$ 3,059,142</u>

All of the Component Units' receivables are considered to be collectible.

All deferred revenue in the component units is unearned.

A. Property Taxes

The City levies real estate taxes on all real property on a calendar year basis, at a rate enacted by the City Council on the assessed value of property (except public utility property) as determined by the Director of Real Estate Assessments of the City. The Commonwealth assesses public utility property. Neither the City nor the Commonwealth of Virginia imposes a limitation on the tax rate. All property is assessed at 100 percent of fair market value and reassessed each year as of January 1. The Director of Real Estate Assessments, by authority of City ordinance, prorates billings for property incomplete as of January 1, but completed during the year.

Real estate taxes are billed in equal semi-annual installments due June 15 and November 15. The taxes receivable balance at June 30, 2003 includes amounts not yet received from the January 1, 2003 levy (due June 15 and November 15, 2003), less an allowance for uncollectibles. The installment due on November 15, 2003 is included as deferred revenue since these taxes are restricted for use until FY 2004. Liens are placed on the property on the date real estate taxes are delinquent, and must be satisfied prior to the sale or transfer of the property. In addition, any uncollected amounts from previous years' levies are incorporated in the taxes receivable balance. The tax rate was \$1.035 and \$1.08 per \$100 of assessed value during calendar year 2003 and 2002, respectively.

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 4. RECEIVABLES (Continued)

Personal property tax assessments on tangible business property and all motor vehicles are based on 100 percent of fair market value of the property as of January 1 of each year. For a vehicle, the tax may be prorated for the length of time the vehicle has situs in the City. Personal property taxes for the calendar year are due on October 5. Personal property taxes do not create a lien on property; however, City vehicle decals, which are required by law for all vehicles garaged in the City, may not be issued to any individual having outstanding personal property taxes. The taxes receivable balance at June 30, 2003 includes amounts not yet billed or received from the January 1, 2003 levy (due October 6, 2003). These taxes are included as deferred revenue since these taxes are restricted for use until FY 2004. The tax rates during calendar year 2003 and 2002 were \$4.75 for motor vehicles and tangible property and \$4.50 for machinery and tools per \$100 of assessed value. In addition, any uncollected amounts from prior year levies are incorporated in the taxes receivable balance. Under the provisions of the Personal Property Tax Relief Act of 1998 (PPTRA), the City billed and collected from the State 70 percent of most taxpayers' payments in FY 2003 for the January 1, 2002 levy for the State's share of the local personal property tax payment with the remainder collected by the City. Deferred revenues include the 70 percent state share of the January 1, 2003 levy.

B. Notes Receivable

The gross amount of notes receivable are primarily for the City's housing programs and consisted of the following at June 30, 2003:

Governmental Activities

General Fund	\$ 9,000
Special Revenue Fund	3,744,577
Capital Projects	177,426
Less Allowance for Uncollectible Accounts	<u>(2,008,019)</u>
Net	<u>\$ 1,922,984</u>
Amounts due within one year	<u>\$ 59,129</u>
Amounts due in more than one year	<u>\$ 1,863,855</u>

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 5. CAPITAL ASSETS

The following is a summary of the changes in capital assets for the fiscal year ended June 30, 2003:

Governmental Activities

	Balance June 30, 2002	Increases	Decreases	Balance June 30, 2003
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 49,041,243	\$ 1,820,224	\$ --	\$ 50,861,467
Construction in Progress	29,446,532	35,966,215	14,396,061	51,016,686
Total Capital Assets Not Being Depreciated	\$ 78,487,775	\$ 37,786,439	\$ 14,396,061	\$ 101,878,153
Other Capital Assets:				
Buildings	\$ 187,031,525	\$ 3,244,690	\$ --	\$ 190,276,215
Infrastructure	98,871,118	11,201,447	--	110,072,565
Furniture and Other Equipment	38,490,245	5,435,340	663,710	43,261,875
Total Other Capital Assets	\$ 324,392,888	\$ 19,881,477	\$ 663,710	\$ 343,610,655
Less Accumulated Depreciation for:				
Buildings	\$ 51,200,716	\$ 4,678,494	\$ --	\$ 55,879,210
Infrastructure	38,913,756	4,178,874	--	43,092,630
Furniture and Other Equipment	25,930,076	3,777,076	603,913	29,103,239
Total Accumulated Depreciation	\$ 116,044,548	\$ 12,634,444	\$ 603,913	\$ 128,075,079
Other Capital Assets, Net	\$ 208,348,340	\$ 7,247,033	\$ 59,797	\$ 215,535,576
TOTALS	\$ 286,836,115	\$ 45,033,472	\$ 14,455,858	\$ 317,413,729

The City acquires and maintains all capital assets for the Library. Accordingly, Library capital assets are included in the governmental activities totals.

Governmental activities capital assets net of accumulated depreciation at June 30, 2003 are comprised of the following:

General Capital Assets, Net	\$ 306,035,889
Internal Service Fund Capital Assets, Net	11,377,840
TOTAL	\$ 317,413,729

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

Note 5. CAPITAL ASSETS (Continued)

Depreciation was charged to governmental functions as follows:

General Government	\$ 1,426,208
Judicial Administration	505,713
Public Safety	1,524,609
Public Works	6,328,966
Health and Welfare	442,860
Culture and Recreation	1,779,888
Education	456,557
Community Development	<u>169,643</u>
Total	<u>\$ 12,634,444</u>

Component Unit - School Board

The following is a summary of the changes in capital assets for the fiscal year ended June 30, 2003

	<u>Balance June 30, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2003</u>
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 999,381	\$ --	\$ --	\$ 999,381
Total Capital Assets Not Being Depreciated	<u>\$ 999,381</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 999,381</u>
Other Capital Assets:				
Buildings	\$ 54,486,551	\$ --	\$ --	\$ 54,486,551
Furniture and Other Equipment	<u>5,768,155</u>	<u>693,372</u>	<u>372,382</u>	<u>6,089,145</u>
Total Other Capital Assets	<u>\$ 60,254,706</u>	<u>\$ 693,372</u>	<u>\$ 372,382</u>	<u>\$ 60,575,696</u>
Less Accumulated Depreciation	<u>54,892,487</u>	<u>1,018,839</u>	<u>372,382</u>	<u>55,538,944</u>
Other Capital Assets, Net	<u>\$ 5,362,219</u>	<u>\$ (325,467)</u>	<u>\$ --</u>	<u>\$ 5,036,752</u>
TOTALS	<u>\$ 6,361,600</u>	<u>\$ (325,467)</u>	<u>\$ --</u>	<u>\$ 6,036,133</u>

In FY 2002 the Virginia Assembly passed a general law to respond to GASB Statement No. 34 that establishes the local option of creating for financial reporting purposes, a tenancy in common with the local school board when a city or county issues bonds. The sole purpose of the law is to allow cities and counties the ability to record together school assets and related debt liabilities. As a result, certain assets purchased with the City's general obligation bonds are now recorded as part of the primary government. According to the law, the tenancy in common ends when the associated obligation is repaid, therefore the assets will revert to the Alexandria School Board when the bonds are repaid. Nothing in the law alters the authority or responsibility of the local school board or control of the assets.

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

Note 5. CAPITAL ASSETS (Continued)

All depreciation was charged to education.

Component Unit – Alexandria Transit Company

	<u>Balance</u> <u>June 30, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2003</u>
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 3,150,200	\$ 3,354,607	\$ ---	\$ 6,504,807
Other Capital Assets:				
Equipment	\$ 12,831,573	\$ 154,906	\$ 15,567	\$ 12,970,912
Less Accumulated Depreciation	<u>5,437,078</u>	<u>943,143</u>	<u>15,567</u>	<u>6,364,654</u>
Subtotal	\$ 7,394,495	\$ (788,237)	\$ ---	\$ 6,606,258
TOTALS	<u>\$ 10,544,695</u>	<u>\$ 2,566,370</u>	<u>\$ ---</u>	<u>\$ 13,111,065</u>

All depreciation was charged to transit.

Primary Government

Construction in progress is composed of the following at June 30, 2003:

	<u>Project</u> <u>Authorization</u>	<u>Expended</u> <u>Through</u> <u>June 30, 2003</u>	<u>Committed</u>
School Capital Projects	\$ 37,868,588	\$ 32,979,365	\$ ---
Infrastructure	20,265,014	5,992,947	3,837,011
Information Technology	9,484,816	3,782,015	601,523
Housing and Community Improvement	2,110,882	289,079	92,594
Parks and Recreation Facilities	5,681,886	1,208,023	2,160,612
Public Buildings	12,680,574	1,644,635	1,359,316
Public Safety Buildings	<u>4,194,831</u>	<u>5,120,622</u>	<u>720,881</u>
TOTALS	<u>\$ 92,286,591</u>	<u>\$ 51,016,686</u>	<u>\$ 8,771,937</u>

Business-Type Activities

The following is a summary of changes in capital assets for business-type activities for the fiscal year ended June 30, 2003:

	<u>Balance</u> <u>June 30, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2003</u>
Business-type activities:				
Equipment	\$ 960,431	\$ ---	\$ 960,431	\$ ---
Less Accumulated Depreciation for:				
Equipment	<u>898,526</u>	<u>---</u>	<u>98,526</u>	<u>---</u>
TOTAL	<u>\$ 61,905</u>	<u>\$ ---</u>	<u>\$ 61,905</u>	<u>\$ ---</u>

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

Note 5. CAPITAL ASSETS (Continued)

Component Units

There were no construction in process authorizations for the component units.

Capital outlays are reported as expenditures in the governmental funds; however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. The adjustment from governmental funds to the government-wide statements are summarized as follows:

Primary Government

Capital Outlay	\$ 49,364,103
Donated Assets	10,187,928
Depreciation Expense	(12,634,444)
Capital Outlay not Capitalized	<u>(20,381,143)</u>
Total Adjustment	<u>\$ 26,536,444</u>

Donated assets are comprised of the cost of infrastructure constructed by the state on City property and turned over to the City for maintenance.

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 6. RISK MANAGEMENT

The City is exposed to various losses related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the City to retain risks of losses in those areas where it believes it is more economical to manage its risks internally and account for any claims settlement in the General Fund. Exceptions to the self-insurance program are made when insurance coverage is available and when premiums are cost effective. The City is covered by property/casualty insurance policies on real and personal property (except vehicles) and the following liability insurance policies as of June 30, 2003: public entity and public officials excess liability, medical and dental malpractice liability, voting booths, special events, vacant buildings, volunteer liability, non-owned aircraft liability, and commercial crime. In addition, the City maintains excess workers' compensation insurance. The City maintains a blanket surety bond on all City workers who handle funds and excess amounts on key officials. There were no material reductions in insurance coverage from coverage in the prior fiscal year nor did settlements exceed coverage for any of the past three fiscal years.

The City is self insured for workers' compensation claims up to \$300,000, public officers, public entity, physical damage to vehicles, and vehicle general liability under \$2 million and over \$10 million.

The following Constitutional Officers and City employees are covered by surety bonds issued in the amounts shown below by Aetna Casualty and Surety as of June 30, 2003:

Director of Finance	\$ 500,000
Treasury Division Chief	\$ 300,000
Revenue Division Chief.....	\$ 150,000
Clerk of the Circuit Court	\$ 103,000*
Sheriff	\$ 30,000*
All other City employees	\$ 100,000
Alexandria Historic Restoration and Preservation Commissioners	\$ 10,000

* Bond provided by Commonwealth of Virginia

Self-Insurance

The non-current portion of unpaid workers' compensation claims amounted to approximately \$3.1 million as of June 30, 2003, and is reflected in the government-wide statements. The current portion is recorded as an accrued liability in the General Fund and the government-wide financial statements. Liabilities are reported when it is probable that losses have occurred and the amounts of the losses can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported to date. Liabilities are determined using a combination of actual claims experience and actuarially determined amounts and include incremental claim adjustment expense and estimated recoveries. An independent contractor processes public liability claims and the City records a provision and liability in the entity-wide statements and General Fund (current portion only) for an estimate of incurred but not reported claims.

Changes in the non-current portion of estimated claims payable for workers' compensation during the fiscal years ended June 30, 2003 and 2002 were as follows:

	<u>FY 2003</u>	<u>FY 2002</u>
Estimated claims payable at beginning of period	\$ 2,501,524	\$ 2,440,071
Current fiscal year claims and changes in estimates	2,243,592	1,103,663
Claim payments.....	<u>(1,666,779)</u>	<u>(1,042,210)</u>
Estimated claims payable at end of period.....	<u>\$ 3,078,337</u>	<u>\$ 2,501,524</u>

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 6. RISK MANAGEMENT (Continued)

Insurance Reserve

In addition, the City has designated a General Fund fund balance self-insurance reserve of \$5 million as of June 30, 2003.

Risk Pools

On March 15, 1986, the City joined the Commonwealth of Virginia's Law Enforcement Liability plan, called VA Risk, on behalf of the Office of the Sheriff. VA Risk is operated by the Division of Risk Management of the Commonwealth's Department of General Services. It was created in accordance with Sec. 2.1-526.8:1 of the Code of Virginia, which says that the State shall have the right and duty to defend any suit seeking damages or compensation against the City's officials and employees on account of wrongful acts, even if any of the allegations of the suit are groundless, false, or fraudulent, and may make investigation and settlement of any claims or suit as deemed expedient. The limits of VA Risk coverage are \$1 million per claim. The City retains the risk for all claims in excess of \$1 million.

Component Units

The School Board carries insurance for all risks of loss, including property insurance, theft, auto liability, physical damage, and general liability insurance through the Virginia Municipal League. The School Board is self-insured for workers compensation. School management has estimated their workers compensation liability is not significant, and therefore, a liability has not been recorded as of June 30, 2003. Settled claims resulting from these risks have not exceeded commercial insurance coverage. There were no material reductions in insurance coverage from coverage in the prior fiscal year nor did settlements exceed coverage for any of the past three fiscal years.

The Library carries commercial insurance with the Virginia Municipal League for all risks of loss including property insurance, theft, auto liability, physical damage, and general liability insurances. There were no material reductions in insurance coverage from coverage in the prior fiscal year nor did settlements exceed coverage for any of the past three fiscal years.

On October 1, 1987, the Alexandria Transit Company joined the Virginia Transit Liability Pool. The Virginia Transit Liability Pool is serviced by commercial companies.

The coverage and limits of the pool's liability to the City are as follows:

Commercial General Liability	\$10 million
Automobile Liability	\$10 million
Uninsured Motorist.....	\$50,000
Automobile Physical Damage.....	(Actual Value)

In Fiscal Year 2003 the Alexandria Transit Company paid an annual premium of \$202,995 for participation in this pool.

Under the provisions of the Virginia Workers' Compensation Act, the Alexandria Transit Company has secured the payment of Virginia compensation benefits and employers' liability coverage with the Virginia Municipal Group Self-Insurance Association (VMGSIA). VMGSIA is a public entity risk pool providing a comprehensive workers' compensation insurance program to Virginia municipalities and other local government entities. In addition to insurance coverage, the program provides risk management services with emphasis on loss control and claims administration. The Alexandria Transit Company pays an annual premium to VMGSIA for

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 6. RISK MANAGEMENT (Continued)

workers' compensation coverage. VMGSIA is self-sustaining through member premiums and will reinsure for claims in excess of \$5 million. Each member's premium is determined through an actuarial analysis based upon the individual district's past experience and number of employees. In Fiscal Year 2003, the Alexandria Transit Company paid an annual premium of \$34,006 for participation in this pool.

NOTE 7. OPERATING LEASES

Rental Costs

The City and the School Board lease office space and equipment under various long-term operating lease agreements expiring at various dates through Fiscal Year 2017. Certain leases contain provisions for possible future increased rentals based upon changes in the Consumer Price Index.

Scheduled minimum rental payments for succeeding fiscal years ending June 30 are as follows:

<u>Fiscal Year</u>	<u>Primary Government</u>	<u>School Board Component Unit</u>
2004	\$ 3,393,881	\$ 988,638
2005	2,992,029	1,018,297
2006	2,627,004	1,048,846
2007	2,550,751	1,080,311
2008	2,582,815	1,112,720
2009-2013	10,799,301	6,084,811
2014-2017	1,305,155	---

Total rental costs during Fiscal Year 2003 for operating leases were \$2,941,724 for the Primary Government and \$1,771,772 for the School Board.

Rental Revenues

The City also leases various City-owned properties and buildings under noncancellable long-term lease agreements through Fiscal Year 2013. The net book value of leased assets of \$4.7 million (cost of \$5.4 million less accumulated depreciation of \$0.7 million) is included in capital assets in the government-wide financial statements. Certain leases contain provisions for future increased revenues based upon changes in the Consumer Price Index.

Scheduled minimum revenues for succeeding fiscal years ending June 30 are as follows:

<u>Fiscal Year</u>	<u>Total Revenues</u>
2004	\$ 276,069
2005	229,045
2006	188,717
2007	188,717
2008	188,717
2009-2013	943,585

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 8. CAPITAL LEASE

The City participates in a joint venture with the Counties of Arlington and Loudoun and the Cities of Fairfax, Falls Church, Manassas, and Manassas Park to provide training for sworn law enforcement and correctional officers to satisfy requirements mandated by the Commonwealth of Virginia. In Fiscal Year 1993, the City entered into a long-term lease with the other members to finance the costs of acquisition, renovation, furnishing and equipping of a training facility for the Northern Virginia Criminal Justice Academy. This lease provides for monthly payments in amounts sufficient to meet the annual debt service requirements on the Industrial Development Bonds issued to the Academy by the Industrial Development Authority of Loudoun County, Virginia.

Future minimum lease payments under the capital lease, which will be funded from the General Fund, is as follows:

Primary Government

<u>Fiscal Year</u>	<u>Criminal Justice Academy</u>
2004	\$ 131,924
2005	131,225
2006	131,229
2007	131,885
2008	<u>2,167</u>
	\$ 658,430
Less: Amount	
Representing	
Interest	<u>96,143</u>
Present Value of Future	
Minimum Lease	
Payments.....	<u>\$ 62,287</u>

The gross amount recorded in capital assets for the asset associated with this lease is \$1.5 million, including land of \$0.2 million and building of \$1.3 million.

NOTE 9. COMMITMENTS AND CONTINGENCIES

A. Washington Metropolitan Area Transit Authority

The City's commitments to the Washington Metropolitan Area Transit Authority (WMATA) are comprised of agreements to make capital contributions for construction of the rail transit system, contributions for replacement and improvement of rail and bus equipment, and payments of operating subsidies for both the rail and bus systems. The City's commitments in each of these areas are summarized as follows:

1. Capital Contributions - Rail Construction

The City and other participating jurisdictions have entered into a series of capital contributions agreements with WMATA to fund the local share of the cost of constructing the regional Metrorail transit system. The City has fulfilled all of its commitments for capital contributions except those commitments pursuant to the fifth Interim Capital Contributions Agreement (ICCA-V) that was adopted by the Council in January 1992. Pursuant to these agreements, the City and other participating jurisdictions pledged their best efforts and faithful cooperation to provide capital contributions to match federal grants funded from the federal authorizations. These agreements include a schedule for capital contributions required of the jurisdictions to match federal appropriations from the

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 9. COMMITMENTS AND CONTINGENCIES (Continued)

respective authorizations. As of June 30, 2003, only \$0.4 million in City commitments under ICCA-V had not been contributed.

The final 13.5 miles of the 103-mile adopted regional system for Metrorail are being funded under P.L. 101-551. While these final miles were completed in FY 2001, closing billings or closing credits (if no bill is due) are not anticipated to be completed until FY 2004. In approving ICCA-V, the jurisdictions agreed to provide local matching contributions totaling \$780 million over the life of the authorization. The payment schedule that was included in the agreement called for \$21 million in matching funds to be provided by the City of Alexandria between Fiscal Years 1993 and 2002. These payments have been made pending any closing billings or credits.

2. Capital contributions - Bus and Rail Replacement

Each fiscal year, the City is obligated to make payments or have payments made on its behalf for capital purchases for WMATA's bus system and to improve the reliability of rail capital equipment. The funding required for WMATA's annual capital program depends upon the availability of federal grants. During the fiscal year ended June 30, 2003, the total City obligation was \$3.5 million for the WMATA capital replacement/improvement. Of this total, \$1.6 million was funded with Commonwealth Transportation Bonds, \$0.9 million from City capital project funds, and \$1.0 million in WMATA credits.

3. Operating subsidies - Bus and Rail Systems

During the fiscal year ended June 30, 2003, obligations for bus and rail subsidies amounted to \$15.7 million. The City paid this obligation from the following sources:

City payments	\$ 2,690,130
Revenues and credits available at WMATA and NVTC	2,401,331
State Aid and State Motor Fuel Sales Tax revenues	<u>10,607,423</u>
TOTAL	<u>\$15,698,884</u>

Expected obligations for Fiscal Year 2004 are \$15.8 million of which \$2.9 million is expected to be paid from the City's General Fund.

4. WMATA Transit Revenue Bonds

WMATA issued almost \$1 billion of federally guaranteed transit revenue bonds to fund part of the construction of the rail transit system. Operating revenues have been insufficient to retire this debt. The federal government and WMATA entered into an agreement whereby the federal government agreed to pay two-thirds of the debt service costs for these bonds and to advance part of the remaining one-third during the first three years of the agreement. The agreement requires that WMATA repay the federal advances, with interest, and one-third of the debt service on the bonds. WMATA allocated the cost of the advances and the one-third of the debt service cost among the participating jurisdictions. During FY 2003 the City paid \$256,070 for debt service to the Northern Virginia Transportation Commission (NVTC) for bonds issued in November 1999. The City has not agreed to any payments for the one-third allocation of debt service, but NVTC has paid, from state aid, all such costs allocated to Northern Virginia jurisdictions, of which \$1,418,184 was the City's allocation during the fiscal year ended June 30, 2003. However, NVTC has not paid any of the allocations for federal advances. In July of 1985, the Alexandria City Council authorized NVTC to pay \$4.2 million to WMATA, including accrued interest from state aid on deposit to the credit of the City. This was the total amount allocated to the City by WMATA for advances by the federal government, including accrued interest. The City has thus, with such authorization, satisfied all claims due WMATA for transit revenue bonds.

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 9. COMMITMENTS AND CONTINGENCIES (Continued)

B. Litigation

The City is contingently liable with respect to lawsuits and other claims that arise in the ordinary course of its operations. It is the opinion of City management and the City Attorney that any losses not covered by insurance that may ultimately be incurred as a result of the suits and claims will not be material.

C. Waste-To-Energy Facility

The City has guaranteed annual tonnage of acceptable waste commitment to the Waste-to-Energy Facility, which is owned and operated by a private corporation. The commitment, which is joint with Arlington County, is based on a percent of solid waste the City and Arlington County expects to collect together. The facility will charge a fee on each ton based on defined costs. Based on an engineering study, it is expected that the City and Arlington County will be able to meet their minimum requirement for annual tonnage of 225,000 tons per year. For fiscal year 2003 and for every year the facility has been open, the City and Arlington County exceeded the minimum annual tonnage requirement. If the City would be required to augment this requirement, the financial effect on the City would be immaterial.

Federal law changes in the Clean Air Act and subsequent regulations required the City and Arlington County to invest in a retrofit for new equipment at the Waste-To Energy Facility. This investment was financed by \$46.1 million in revenue bonds issued under the Arlington County Industrial Development Authority. Operating costs of the facility are paid for primarily through tipping fees. The City paid \$1.7 million in tipping fees in FY 2003. In the event of a revenue shortfall at the facility, the City is not responsible for the repayment of the bonds. The Alexandria Sanitation Authority and the Arlington Solid Waste Authority have certain bond repayment obligations.

D. Northern Virginia Transportation District Bonds

In November 1999, the City signed an agreement with the Commonwealth Transportation Board to provide \$256,070 annually, subject to appropriation, to finance certain Northern Virginia Transportation District Bond projects benefiting the City and other jurisdictions in Northern Virginia. The FY 2003 payment of \$256,070 was made from the proceeds from the City's telecommunications tax received by the General Fund. The City is not liable for repayment of the 20-year bonds.

NOTE 10 LONG-TERM DEBT

General Obligation Bonds - The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities.

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 10. LONG-TERM DEBT (Continued)

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds are subject to the provisions of the Internal Revenue Code of 1986 related to arbitrage and interest income tax regulations under those provisions. The City currently has no outstanding arbitrage obligation. General obligation bonds outstanding as of June 30, 2003 are composed of the following individual issues:

	Amount Outstanding
\$54,500,000 Public Improvement Bonds of 2001 installments ranging from \$2,895,000 to \$2,900,000 through 2021, bearing interest at rates ranging from 3.25 percent to 4.875 percent. The bonds maturing before June 15, 2012 are not subject to redemption before maturity. Beginning June 15, 2011, bonds maturing on or after June 15, 2012 are subject to redemption at the direction of the City, in whole or in part in installments of \$5,000, at certain redemption prices that include a redemption premium plus accrued interest	\$ 52,150,000
\$55,000,000 Public Improvement Bonds of 2000 installments ranging from \$2,980,000 to \$2,985,000 through 2020, bearing interest at rates ranging from 4.75 percent to 5.75 percent. The bonds maturing before June 15, 2011 are not subject to redemption before maturity. Beginning June 15, 2010, bonds maturing on or after June 15, 2011 are subject to redemption at the direction of the City, in whole or in part in installments of \$5,000, at certain redemption prices that include a redemption premium plus accrued interest	50,700,000
\$40,000,000 Public Improvement Bonds of 1999 due in annual installments of \$2,000,000 through 2019, bearing interest at rates ranging from 3.6 percent to 5.0 percent. The bonds are not subject to redemption prior to maturity	32,000,000
\$22,655,000 Public Improvement and Refunding Bonds (\$10,000,000 refunded) of 1994 due in annual installments ranging from \$790,000 to \$1,785,000 through 2009, bearing interest rates ranging from 4.7 percent to 5.1 percent. The bonds are not subject to redemption prior to maturity	17,640,000
\$23,485,000 Public Improvement Refunding Bonds (\$20,980,000 refunded) of 1992 due with an annual installment of \$1,125,000 due December 2003, bearing interest at 5.85 percent. The bonds are not subject to redemption prior to maturity	1,125,000
	\$ 143,615,000

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 10. LONG-TERM DEBT (Continued)

The outstanding bonds have been issued as follows:

Public Improvement Bonds of 2001				Public Improvement Bonds of 2000			
CUSIP	Issue	Rate	<u>Maturity Date</u> June 15,	CUSIP	2000 Issue	Rate	<u>Maturity Date</u> June 15,
015302UY6	\$ 2,900,000	3.25	2004	015302UD2	\$ 2,985,000	5.25	2004
015302UZ3	2,900,000	4.00	2005	015302UE0	2,985,000	5.00	2005
015302VA7	2,900,000	3.60	2006	015302UF7	2,985,000	4.75	2006
015302VB5	2,900,000	3.80	2007	015302UG5	2,985,000	5.00	2007
015302VC3	2,900,000	4.00	2008	015302UH3	2,985,000	5.00	2008
015302VD1	2,900,000	4.00	2009	015302UJ9	2,985,000	5.00	2009
015302VE9	2,900,000	4.13	2010	015302UK6	2,985,000	5.00	2010
015302VF6	2,900,000	4.25	2011	015302UL4	2,985,000	5.00	2011
015302VG4	2,895,000	4.40	2012	015302UM2	2,980,000	5.13	2012
015302VH2	2,895,000	4.50	2013	015302UN0	2,980,000	5.25	2013
015302VJ8	2,895,000	4.50	2014	015302UP5	2,980,000	5.75	2014
015302VK5	2,895,000	4.63	2015	015302UQ3	2,980,000	5.25	2015
015302VL3	2,895,000	5.25	2016	015302UR1	2,980,000	5.38	2016
015302VM1	2,895,000	4.75	2017	015302US9	2,980,000	5.50	2017
015302VN9	2,895,000	4.75	2018	015302UT7	2,980,000	5.50	2018
015302VP4	2,895,000	4.88	2019	015302UU4	2,980,000	5.50	2019
015302VQ2	2,895,000	4.88	2020	015302UV2	2,980,000	5.75	2020
015302VR0	2,895,000	4.88	2021				
Total	<u>\$ 52,150,000</u>			Total	<u>\$ 50,700,000</u>		

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 10. LONG-TERM DEBT (Continued)

Public Improvement Bonds of 1999				Public Improvement and Refunding Bonds of 1994			
<u>CUSIP</u>	<u>Issue</u>	<u>Rate</u>	<u>Maturity Date</u> <u>January 1,</u>	<u>CUSIP</u>	<u>Issue</u>	<u>Rate</u>	<u>Maturity Date</u> <u>February 1,</u>
015302TJ1	2,000,000	3.60	2004	015302SY9	\$ 1,785,000	4.700	2004
015302TK8	2,000,000	3.70	2005	015302SZ6	1,755,000	4.875	2005
015302TL6	2,000,000	3.80	2006	015302TA0	1,730,000	5.000	2006
015302TM4	2,000,000	3.90	2007	015302TB8	790,000	5.000	2007
015302TN2	2,000,000	3.90	2008	015302TC6	790,000	5.100	2008
015302TP7	2,000,000	4.00	2009	015302TD4	790,000	5.100	2009
015302TQ5	2,000,000	5.00	2010	Total	\$ 7,640,000		
015302TR3	2,000,000	4.25	2011				
015302TS1	2,000,000	4.25	2012				
015302TT9	2,000,000	5.00	2013				
015302TU6	2,000,000	5.00	2014				
015302TV4	2,000,000	4.50	2015				
015302TW2	2,000,000	5.00	2016				
015302TX0	2,000,000	5.00	2017				
015302TY8	2,000,000	5.00	2018				
015302TZ5	2,000,000	5.00	2019				
Total	\$ 32,000,000						

Public Improvement Refunding Bonds of 1992			
<u>CUSIP</u>	<u>1992 Issue</u>	<u>Rate</u>	<u>Maturity Date</u> <u>December 1,</u>
015302SN3	\$ 1,125,000	5.85	2003
Total	\$ 1,125,000		

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 10. LONG-TERM DEBT (Continued)

The requirements to amortize all long-term bonds as of June 30, 2003, including interest payments of \$68,148,467 are summarized as follows:

Fiscal Year	Serial Bonds	
	Principal	Interest
2004.....	\$ 10,795,000	\$ 6,738,617
2005.....	9,640,000	6,298,854
2006.....	9,615,000	5,874,048
2007.....	8,675,000	5,465,360
2008.....	8,675,000	5,088,410
2009-2013.....	40,195,000	19,795,460
2014-2018.....	39,375,000	10,261,306
2019-2021.....	<u>16,645,000</u>	<u>1,453,388</u>
	<u>\$ 143,615,000</u>	<u>\$ 60,975,443</u>

Debt service requirements for general obligation bonds are met by the General Fund. The City retains the liability for the portion of general obligation bonds issued to fund capital projects of the School Board.

Legal Debt Margin - The City has no overlapping debt with other jurisdictions. As of June 30, 2003, the City had a legal debt limit of \$1.9 billion and a debt margin of \$1.8 billion:

Assessed Value of Real Property, January 1, 2003.....	<u>\$19,348,250,400</u>
Debt Limit: 10 Percent of Assessed Value	<u>\$ 1,934,825,040</u>
Amount of Debt Applicable to Debt Limit:	
General Obligation Bonds.....	<u>\$ 143,615,000</u>
Total General Obligation Debt	<u>143,615,000</u>
LEGAL DEBT MARGIN	<u>\$ 1,791,210,040</u>

Unissued Bonds - Bond authorizations expire three years from the effective date of the respective bond ordinances. Authorization of bonds, bonds issued and expirations during the fiscal year ended June 30, 2003, are summarized below:

	Authorized and Unissued			Authorized and Unissued	
	July 1, 2002	Authorized	Issued	Expired	June 30, 2003
General Obligation Bonds	<u>\$ -</u>	<u>\$ 64,700,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,700,000</u>

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 10. LONG-TERM DEBT (Continued)

Changes in Long-Term Liabilities - Changes in the total long-term liabilities during the fiscal year ended June 30, 2003 are summarized below. The Net Pension Obligation results from contributions to the City Supplemental Pension Plan and the Public Safety Pension Plan that were less than the required amount. In general the City uses the General Fund to liquidate long-term liabilities.

Primary Government – Governmental Activities

	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2003</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
General Obligation Bonds	\$ 153,925,000	\$ ---	\$ 10,310,000	\$ 143,615,000	\$ 10,795,000
Obligations Under Capital Lease	789,531	---	227,244	562,287	100,998
Workers' Compensation Claims	2,501,524	2,243,592	1,666,779	3,078,337	1,636,074
Accrued Compensated Absences	13,119,941	9,929,119	8,671,341	14,377,719	1,282,934
Net Pension Obligation	<u>5,974,296</u>	<u>2,131,137</u>	<u>---</u>	<u>8,105,433</u>	<u>---</u>
TOTALS	<u>\$ 176,310,292</u>	<u>\$ 14,303,848</u>	<u>\$ 20,875,364</u>	<u>\$ 169,738,776</u>	<u>\$ 13,815,006</u>

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

All liabilities – both current and long-term – are reported in the statement of net assets. The adjustment from modified accrual to full accrual is as follows:

Balances at June 30, 2003:	
Long-term liabilities (detail above)	\$ 169,738,776
Accrued interest	<u>1,071,014</u>
Combined adjustment	<u>\$ 170,809,790</u>

Under the modified accrual basis of accounting used in the fund financial statements for the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the government-wide statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. This adjustment from modified accrual to full accrual is composed of the following items:

Compensated absences	\$ 1,257,778
Workers' compensation	576,813
Pension obligation	2,131,137
Capital lease credit	(109,648)
Accrued interest on bonds	<u>(89,020)</u>
Combined adjustment	<u>\$ 3,767,060</u>

Component Unit – School Board

	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2003</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Accrued Compensated Absences	<u>\$ 4,100,912</u>	<u>\$ 6,026,495</u>	<u>\$ 4,824,947</u>	<u>\$ 5,302,460</u>	<u>\$ 328,890</u>

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 11. INTERFUND BALANCES AND TRANSACTIONS

Component Unit

There were no interfund receivable/payables at June 30, 2003.

Interfund transfers and transactions for the year ended June 30, 2003 consisted of the following:

Transfer to (Fund):	General	Special Revenue	Capital Projects	Recycling Fund	Total
Primary Government Transactions					
General Fund	\$ ---	\$ ---	\$ ---	\$ 893,602	\$ 893,602
Special Revenue	20,947,187	---	---	---	20,947,187
Capital Projects	26,100,000	84,593	---	---	26,184,593
Internal Service	---	478,163	---	61,905	540,068
Total	\$ 47,047,187	\$ 562,756	\$ ---	\$ 955,507	\$ 48,565,450
Component Unit Transactions					
Schools	\$ 115,329,680	\$ ---	\$ 7,552,027	\$ ---	\$ 122,881,707
Library	5,140,618	---	---	---	5,140,618
Alexandria Transit	4,834,200	---	---	---	4,834,200
Total	\$ 125,304,498	\$ ---	\$ 7,552,027	\$ ---	\$ 132,856,525

Primary transfer activities include:

Transfers from the General Fund to the Special Revenue Fund represent City funds required to match grant programs resources.

Special Revenue funds are transferred to other funds for capital and equipment purchases as determined by the terms of the grant agreements.

Transfers from the General Fund to the Capital Projects fund represents the City's budgeted pay-as-you go funding.

Transfers from the Recycling Fund to the General Fund represent the transfer of the fund's cash after the fund was closed in fiscal year 2003. In addition \$61,905 in recycling assets were transferred to the City's internal service fund.

Transfers to the component units represent budgeted subsidies for the school operations and capital projects, library operations and transit operations. In addition, the City transferred capital assets totaling \$3.4 million to Alexandria Transit.

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 12. GRANTS

The City receives financial assistance from numerous federal, state and local governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any unallowed disbursements resulting from such audits could become a liability of the City. In the opinion of City management, no material refunds will be required as a result of unallowed disbursements (if any), by the grantor agencies.

NOTE 13. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues for the City and its component units totaled \$ 122.3 million in fiscal year 2003. Sources of these revenues were as follows:

GOVERNMENTAL FUNDS	
Federal Government	\$ 31,617,428
Commonwealth of Virginia	<u>61,269,527</u>
Total Primary Government	<u>\$ 92,886,955</u>
 COMPONENT UNITS	
Federal Government:	
School Board	<u>\$ 7,762,590</u>
 Commonwealth of Virginia:	
School Board	\$ 21,270,036
Library	210,208
Alexandria Transit Company	<u>136,418</u>
Total Component Units Commonwealth of Virginia	<u>\$ 21,616,662</u>
Total Component Units	<u>\$ 29,379,252</u>
 TOTAL CITY AND COMPONENT UNITS	
Total Federal Government	\$ 39,380,018
Total Commonwealth of Virginia	<u>82,886,188</u>
Total Intergovernmental Revenue	<u>\$ 122,266,206</u>

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 14. DUE FROM OTHER GOVERNMENTAL UNITS

Due from other governmental units represents accrued revenue at June 30, 2003, consisting of the following:

Primary Government	
State	
General Fund	\$28,452,580
Special Revenue Fund	<u>2,934,792</u>
Total State	<u>\$31,387,372</u>
Federal	
General Fund	\$ 1,521,133
Special Revenue Fund	<u>3,618,219</u>
Total Federal	<u>\$ 5,139,352</u>
Total Primary Government	<u>\$36,526,724</u>
Component Units	
State	
School Board	\$ 1,177,029
Alexandria Transit Company	<u>137,046</u>
Total State	<u>\$ 1,314,075</u>
Federal	
School Board	<u>\$ 1,655,010</u>
Total Component Units	<u>\$ 2,969,085</u>
Total	<u>\$39,495,809</u>

NOTE 15. JOINT VENTURES

A. Northern Virginia Criminal Justice Academy

The City participates in a joint venture with the Counties of Arlington and Loudoun and the Cities of Fairfax, Falls Church, Manassas, and Manassas Park to provide training for sworn law enforcement and correctional officers to satisfy requirements mandated by the Commonwealth of Virginia. The Industrial Development Authority of Loudoun County, Virginia issued \$6,585,000 Northern Virginia Criminal Justice Academy Lease Revenue Bonds, Series 1993, to finance the acquisition, renovation, and equipment of the Academy Training Center. The City and the Counties of Arlington and Loudoun have entered into a capital lease with the Industrial Development Authority of Loudoun County. The City maintains an equity interest only in the land and building of the Academy, which is reflected in the City's Statement of Net Assets. The City does not maintain an equity interest in the Academy's operations.

In addition, the City pays the Northern Virginia Criminal Justice Academy for operating costs based on the pro-rata share of officers trained. In Fiscal Year 2003, the City paid \$315,361 for operating costs.

Financial statements for the Academy may be obtained at Northern Virginia Criminal Justice Academy, 45299 Research Place, Ashburn, Virginia 22011-2600.

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 15. JOINT VENTURES (Continued)

B. Northern Virginia Juvenile Detention Home

The City participates in a joint venture with Arlington County and the City of Falls Church to operate a regional juvenile detention home. In July 1993, the City agreed to fund 55.3 percent of the construction costs of a new facility. The final construction payments were made in Fiscal Year 1995. In addition, the City pays part of the Northern Virginia Detention Home's operating costs based on the number of beds utilized by Alexandria residents. These payments totaled \$833,102 in fiscal year 2003.

The City does not maintain an equity interest in the detention home. Complete separate financial statements for this operation may be obtained from Northern Virginia Juvenile Detention Home, 200 South Whiting Street, Alexandria, Virginia 22304.

C. Peumansend Creek Regional Jail Authority

In 1992, the City entered into an agreement with the Counties of Caroline, Arlington, Prince William, and Loudoun to form an authority to construct and operate a regional jail in Caroline County. The regional jail, which commenced operations in September 1999, is used primarily to hold prisoners from each member jurisdiction. The Regional Jail Authority is composed of two representatives, the Chief Administrative Officer and the Sheriff, from each participating jurisdiction. The City of Richmond, which was not party to the original agreement, is now a part of the project. The regional jail has the capacity for 336 prisoners. The City is guaranteed a minimum of 50 beds.

The total project cost of \$27 million, with 50 percent of the eligible construction cost (\$23.8 million) is expected to be reimbursed by the Commonwealth. The Regional Jail Authority issued \$10.2 million in revenue bonds and \$12 million of grant anticipation notes in March 1997. The City's total share of the project costs was \$18.2 million, including approximately \$3.2 million in capital and debt service costs and \$15 million in operating costs over the 20-year period of debt (1997-2016). For fiscal year 2003, the City paid \$475,533 for operating costs and \$184,027 for debt service payments. The City does not maintain an equity interest in the jail and is not responsible for repayment of the debt.

Complete financial statements can be obtained by writing to the Authority at Post Office Box 1460, Bowling Green, Virginia 22427.

D. Washington Metropolitan Area Transit Authority

As discussed in Note 9, the City participates in a joint venture with other local jurisdictions to share in the cost of a regional transportation system. The City does not maintain an equity interest in WMATA. Complete financial statements of WMATA may be obtained from WMATA, 600 5th Street, N.W., Washington, DC 20001.

NOTE 16. RELATED PARTY TRANSACTIONS

Sheltered Homes of Alexandria is a not-for-profit corporation formed to obtain and maintain group homes for mentally and physically disabled or impaired adults. The corporation's trustees also serve on the Alexandria Community Services Board, whose board members are appointed by the City and whose financial activities are therefore included as part of the primary government. During fiscal year 2003 the City made rental payments to Sheltered Homes of Alexandria totaling \$352,890.

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 17. POST EMPLOYMENT BENEFITS

In 1989 City Council voted to establish three classes of post employment health care benefits to supplement the increasing health care burden for City retirees. The three classes are as follows: (a) City employees who are eligible to retire under the Virginia Retirement System and City Supplemental Pension plans who have attained age 55 with at least 5 years of service; (b) fire and police employees who are eligible to retire under the pension plan for fire and police who have attained age 50 with at least 20 years of service; and (c) fire and police employees who are eligible to retire under the retirement income plan for fire and police who have attained 20 years of service, regardless of age. Each fiscal year the City Council appropriates funds to pay for these health benefits. As of June 30, 2003, 461 retirees were both eligible and received benefits from all three classes of this plan. Eligibility is contingent upon the retiree providing proof of participation and payment to a health insurance plan. The City contributed on a "pay-as-you-go" basis at the rate of up to \$197.00 per month for each retiree, for a total annual contribution of \$1.0 million for fiscal year 2003.

NOTE 18. EMPLOYEE RETIREMENT SYSTEMS

Primary Government

The City participates in six public employee retirement systems (PERS). One of these systems is handled by Virginia Retirement System (VRS), an agent multi-employer public retirement system that acts as a common investment and administrative agent for political subdivisions in the Commonwealth of Virginia, and is, therefore, not reflected as a City pension trust fund. Of the remaining five, two are single-employer defined benefit plans (City Supplemental and Plan for Fire and Police Pension), where a stated methodology for determining benefits is provided, and three are single-employer defined contribution plans (Retirement Income for Fire and Police, Fire and Police Disability Income, and Retirement Income for Sheriff and Emergency Rescue Technicians), where contribution requirements are not actuarially determined. All of these plans are included as part of the City's reporting entity and as such are reflected as Pension Trust Funds.

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 18. EMPLOYEE RETIREMENT SYSTEMS (Continued)

Combining Schedule of Net Assets
Employee Retirement Funds

	City Supplemental Retirement	Pension for Fire and Police	Retirement Income for Fire and Police	Fire and Police Disability Income	Retirement Income for Sheriff and ERT	Total
ASSETS						
Investments, at Fair Value						
U.S. Government Obligations	\$ -	\$ -	\$ -	\$ 5,090,677	\$ -	\$ 5,090,677
Mutual funds	-	-	48,729,431	-	5,057,882	53,787,313
Stocks	27,141,084	-	-	4,184,577	-	31,325,661
Guaranteed Investment Accounts	16,919,628	37,406,204	45,272,983	-	6,829,055	106,427,870
Domestic Corporate Bonds	-	-	-	2,077,759	-	2,077,759
Other Investments	-	-	-	583,574	-	583,574
Total Investments	<u>\$ 44,060,712</u>	<u>\$ 37,406,204</u>	<u>\$ 94,002,414</u>	<u>\$ 11,936,587</u>	<u>\$ 11,886,937</u>	<u>\$ 199,292,854</u>
Total Assets	<u>\$ 44,060,712</u>	<u>\$ 37,406,204</u>	<u>\$ 94,002,414</u>	<u>\$ 11,936,587</u>	<u>\$ 11,886,937</u>	<u>\$ 199,292,854</u>
NET ASSETS						
Held in Trust for Pension Benefits	<u>\$ 44,060,712</u>	<u>\$ 37,406,204</u>	<u>\$ 94,002,414</u>	<u>\$ 11,936,587</u>	<u>\$ 11,886,937</u>	<u>\$ 199,292,854</u>

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 18. EMPLOYEE RETIREMENT SYSTEMS (Continued)

Combining Schedule of Operations						
Employee Retirement Funds						
City Supplemental Retirement	Pension for Fire and Police	Retirement Income for Fire and Police	Fire and Police Disability Income	Retirement Income for Sheriff and ERT	Total	
ADDITIONS						
Contributions:						
Employer	\$ 932,390	\$ 902,000	\$ 5,062,011	\$ 596,905	\$ 1,519,702	\$ 9,013,008
Plan Members	1,864,779	5,183	149,387	127,006	-	2,146,355
Total Contributions	<u>\$ 2,797,169</u>	<u>\$ 907,183</u>	<u>\$ 5,211,398</u>	<u>\$ 723,911</u>	<u>\$ 1,519,702</u>	<u>\$ 11,159,363</u>
Investment Income (expense):						
Net Appreciation (Depreciation) in Fair Value of Investments	\$ (74,682)	\$ -	\$ (466,062)	\$ 256,161	\$ 9,407	\$ (275,176)
Interest	755,274	2,114,328	1,815,759	514,221	249,056	5,448,638
Total Investment Income	<u>\$ 680,592</u>	<u>\$ 2,114,328</u>	<u>\$ 1,349,697</u>	<u>\$ 770,382</u>	<u>\$ 258,463</u>	<u>\$ 5,173,462</u>
Less investment expense	62,677	-	-	-	-	62,677
Net Investment Expense	<u>\$ 617,915</u>	<u>\$ 2,114,328</u>	<u>\$ 1,349,697</u>	<u>\$ 770,382</u>	<u>\$ 258,463</u>	<u>\$ 5,110,785</u>
Total Additions	<u>\$ 3,415,084</u>	<u>\$ 3,021,511</u>	<u>\$ 6,561,095</u>	<u>\$ 1,494,293</u>	<u>\$ 1,778,165</u>	<u>\$ 16,270,148</u>
DEDUCTIONS						
Benefits	\$ 953,252	\$ 4,667,796	\$ -	\$ 1,053,815	\$ -	\$ 6,674,863
Refunds of Contributions	-	-	2,853,910	-	186,769	3,040,679
Administrative Expenses	26,329	63,864	-	53,401	-	143,594
Total Deductions	<u>\$ 979,581</u>	<u>\$ 4,731,660</u>	<u>\$ 2,853,910</u>	<u>\$ 1,107,216</u>	<u>\$ 186,769</u>	<u>\$ 9,859,136</u>
Net Increase (Decrease)	<u>\$ 2,435,503</u>	<u>\$ (1,710,149)</u>	<u>\$ 3,707,185</u>	<u>\$ 387,077</u>	<u>\$ 1,591,396</u>	<u>\$ 6,411,012</u>
Net Assets at Beginning of Year	41,625,209	39,116,353	90,295,229	11,549,510	10,295,541	192,881,842
Net Assets at End of Year	<u>\$ 44,060,712</u>	<u>\$ 37,406,204</u>	<u>\$ 94,002,414</u>	<u>\$ 11,936,587</u>	<u>\$ 11,886,937</u>	<u>\$ 199,292,854</u>

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 18. EMPLOYEE RETIREMENT SYSTEMS (Continued)

The actuarial valuations for all the defined benefit pension plans are performed annually with the exception of VRS, which is performed biennially; however, an actuarial update is performed in the interim year. In the current valuation report, VRS used the same assumptions and methods as the prior year report. The number of active members shown includes those who have worked for the City at one time, but who are now active in another jurisdiction. Also the number of retirees includes those who retired from the City, as well as those who retired from another jurisdiction with service attributable to the City. The liability for the City's share of the benefits for those employees has been reflected in the pension liabilities and employer contribution rates. Financial statements and required supplementary information are presented in VRS comprehensive annual financial report, which can be obtained by writing to the Virginia Retirement System, Post Office Box 2500, Richmond, Virginia 23218.

The City's annual required contribution for the current year increased to \$3.2 million from \$2.6 million for the City Supplemental Retirement Plan. This increase is primarily attributable to lower than expected investment returns along with demographic changes within the covered group. There were no assumption or benefit changes for the current year.

There were no changes in actuarial assumptions, benefit provisions, or funding method for the Pension Plan for Fire Fighters and Police Officers.

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 18. EMPLOYEE RETIREMENT SYSTEMS (Continued)

The following schedules present a description of the plan provisions and membership information, actuarial assumptions, accounting and funding policies, and contribution requirements. Six-year schedules of funding progress and trend information for defined benefit pension plans are provided in Exhibit XVI.

PLAN DESCRIPTION

	1	2	3	4	5	6
	VRS					
	City	City Supplemental Retirement	Pension for Fire and Police	Retirement Income for Fire and Police	Fire and Police Disability Income	Retirement Income for Sheriff and ERT
Administrator	Commonwealth of Virginia	CIGNA	CIGNA	CIGNA	SunTrust	CIGNA
Employees Covered	General Body	General Body	Fire and Police	Fire and Police	Fire and Police	Sheriff/ERT
Authority for Plan Provisions and Contributions	State Statute	City Ordinance	City Ordinance	City Ordinance	City Ordinance	City Ordinance
Plan Type	Agent Multi-Employer	Single-Employer	Single-Employer	Single-Employer	Single-Employer	Single-Employer
	Defined Benefit	Defined Benefit	Defined Benefit	Defined Contribution	Defined Contribution	Defined Contribution
Stand Alone Financial Report	Yes	No	No	No	No	No
Actuarial Valuation Date	06/30/2002	06/30/2003	07/01/2002	Not applicable	Not applicable	Not applicable

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 18. EMPLOYEE RETIREMENT SYSTEMS (Continued)

MEMBERSHIP AND PLAN PROVISIONS

As of:	6/02 (1) VRS	6/03 (2)	7/02 (3)	6/03 (4)	6/03 (5)	6/03 (6)
	City	City Supplemental Retirement	Pension for Fire and Police	Retirement Income For Fire and Police	Fire and Police Disability Income	Retirement Income For Sheriff And ERT
Active Participants	1,837	2,018	1	467	467	231
Retirees & Beneficiaries	504	112	177	0	47	0
Terminated Vested & Non-vested	503	590	-	45	N/A	15
Normal Retirement Benefits:						
Age	65 50 (30Yrs)	65 55 (30Yrs)	60 50 (20Yrs)	60	N/A	60
Benefits Vesting Years	5	5	10	5	N/A	5
Disability & Death Benefits	Disability Death	Disability Death	Disability Death	N/A Death	Disability N/A	N/A Death
SIGNIFICANT ACTUARIAL ASSUMPTIONS						
Investment Earnings	8.0%	8.0%	8.0%	Not applicable	Not applicable	Not applicable
Projected Salary Increases						
Attributable to:						
Inflation	3.0%	4.0%	N/A	Not applicable	Not applicable	Not applicable
Seniority/Merit	1.25 – 3.10%	2.86%	N/A	Not applicable	Not applicable	Not applicable
Projected Postretirement Increases	3.0%	None	3.0%	Not applicable	Not applicable	Not applicable
Actuarial Cost Method	Entry Age Normal Cost	Aggregate Actuarial Cost	Projected Unit Credit With Zero Normal Cost	Not applicable	Not applicable	Not applicable
Amortization Method	Level Percentage Open	Level Percentage N/A	Level dollar Closed	Not applicable	Not applicable	Not applicable
Open/Closed Remaining Amortization Period	12	15	15	Not applicable	Not applicable	Not applicable
Asset Valuation Method	Modified Market	Market Value	Book Value	Not applicable	Not applicable	Not applicable

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 18. EMPLOYEE RETIREMENT SYSTEMS (Continued)

FUNDING POLICY AND ANNUAL PENSION COST

As of:	6/03	6/03	6/03	6/03	6/03	6/03
	<u>VRS</u>			<u>Retirement</u>	<u>Fire and</u>	<u>Retirement</u>
		City	Pension for	Income for	Police	Income for
		Supplemental	Fire and	Fire and	Disability	Sheriff and
	<u>City</u>	Retirement	Police	Police	Income	ERT
PERCENTAGE OF COVERED PAYROLL CONTRIBUTED						
Employee %	5.00%	2.0%	8.0%	Voluntary	0.5%	--
Employer %	0.75%	1.0%	\$ 902,000 /Yr	20.0%	2.35%	13.6%
AMOUNT CONTRIBUTED						
Employee	\$ 4,345,384 *	\$ 1,864,779 *	\$ 5,183	\$ 149,387	\$ 127,006	\$ -
Employer	<u>626,701</u>	<u>932,390</u>	<u>902,000</u>	<u>5,062,011</u>	<u>596,905</u>	<u>1,519,702</u>
Total Amount Contributed	<u>\$ 4,972,085</u>	<u>\$ 2,797,169</u>	<u>\$ 907,183</u>	<u>\$ 5,211,398</u>	<u>\$ 723,911</u>	<u>\$ 1,519,702</u>

* The City assumed the responsibility of payment of employees' share of contributions. Administrative costs of all the pension plans are financed through investment earnings except Pension for Fire and Police and Sheriff /ERT plans, where the City assumes the cost. The Contribution requirements for all pension plans (except VRS) are established and may be amended by City Ordinance. VRS requirements are established and may be amended by State statutes.

COVERED PAYROLL

Dollar Amount	\$ 83.6 million	\$ 93.2 million	\$ 64,787	\$ 25.3 million	\$ 25.3 million	\$ 11.2 million
Legally Required Reserves	N/A	N/A	N/A	N/A	N/A	N/A
Long Term Contribution Contracts	N/A	N/A	N/A	N/A	N/A	N/A

INVESTMENT CONCENTRATIONS

CIGNA General Account (Long Term)	*	38%	100%	48%	-	57%
CIGNA Stock Index	*	-	-	52%	-	43%
State Street Global Russell 3000	*	62%	-	-	-	-

* Investment information not available on an individual jurisdiction basis.

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 18. EMPLOYEE RETIREMENT SYSTEMS (Continued)

Calculation of Net Pension Obligation

	City Supplemental Retirement	Pension Plan for Fire and Police
Actuarially Required Contribution	\$ 3,229,768	\$ 1,033,916
Interest on Net Pension Obligation	405,120	72,823
ARC Adjustment	(648,608)	(127,492)
Annual Pension Cost	<u>\$ 2,986,280</u>	<u>\$ 979,247</u>
Actual Deposit	(932,390)	(902,000)
Change in NPO	\$ 2,053,890	\$ 77,247
NPO Beginning of Year	5,064,006	910,290
NPO End of Year (6/30/03)	<u><u>\$ 7,117,896</u></u>	<u><u>\$ 987,537</u></u>

THREE YEAR TREND INFORMATION

	Actuarial Date	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
City Supplemental Retirement	06/30/2001	\$ 2,288,029	37.11%	\$ 3,493,641
	06/30/2002	2,427,068	35.29%	5,064,006
	06/30/2003	2,986,280	31.22%	7,117,896
Pension for Fire and Police	06/30/2001	\$ 914,245	76.57%	\$ 550,412
	06/30/2002	1,059,878	66.05%	910,290
	06/30/2003	979,247	92.11%	987,537
Virginia Retirement System	06/30/2001	\$ 1,447,935	100.00%	\$ -
	06/30/2002	765,204	100.00%	-
	06/30/2003	626,701	100.00%	-

The City Supplemental plan uses an aggregate actuarial cost method that does not separately identify or amortize unfunded actuarial liabilities.

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 18. EMPLOYEE RETIREMENT SYSTEMS (Continued)

DESCRIPTION OF BENEFITS:

VRS – City - Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service and at age 50 with 30 years of service. Employees who retire with a reduced benefit at age 55 with at least 5 years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount equal to 1.7 percent of their average final salary (AFS) for each year of credited service. An optional reduced retirement benefit is available as early as age 50 with 10 years of credited service. In addition, retirees qualify for annual cost-of-living (COLA) increases on July 1 of the second calendar year after retirement. These benefit provisions and all other requirements are established and may be amended by State statutes.

City Supplemental Retirement Plan- City employees who retire at or after age 65 or after age 55 with 30 years credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to .80 percent of effective compensation multiplied by service on and after January 1, 1988, and 1.625 percent of effective compensation not to exceed \$100 plus .25 percent of such compensation over \$100 times years service provided subsequent to August 1, 1970, and prior to January 1, 1988, and 1.625 percent of past service compensation not to exceed \$100, plus .25 percent of such compensation over \$100 times years service provided subsequent to August 1, 1960, and prior to August 1, 1970. The pension benefit is reduced by 6 2/3 percent for each year up to five years and 3 1/3 percent for each year between five and ten years preceding normal retirement date. Benefit provisions are established and may be amended by City Ordinance.

Pension Plan for Fire Fighters and Police Officers - Employees who retire on or after age 60 are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.5 percent of final average earnings multiplied by years of credited service, up to a maximum of 30 years. The plan also provides early retirement on or after age 50 with 20 years of credited service or on or after age 56 with 10 years of credited service. This plan further provides early retirement on or after age 50 with 10 years of service with actuarially reduced benefit. Benefit provisions are established and may be amended by City Ordinance.

Retirement Income Plan for Fire Fighters and Police Officers - The employees are entitled to contributions made on their behalf after 100 percent vesting. Employee contribution is voluntary and they are allowed to withdraw from their gross voluntary dollars after two years of participation in the plan. They may also cancel their voluntary portion of account. However, if they cancel they will receive a full refund of all voluntary contributions and interest earned to that point and would subsequently be suspended from making any further voluntary contributions for a period of twenty-four months. Benefit provisions are established and may be amended by City Ordinance.

Fire Fighters and Police Officers Disability Income Plan- This provides disability benefits to members of the Retirement Income Plan for Firefighters and Police Officers. The benefits for service-connected total and permanent disability are 70 percent of final average earnings, 66 2/3 percent for non-service connected total and permanent disability and service-connected partial disability, and 50 percent for non-service connected partial disability. Disability benefits are limited by the assets of the trust fund. If the plan administrator, after consultation with the plan's actuary, foresees the plan becoming insolvent, the administrator may reduce all participants' benefits on a pro rata basis as of the first day of any month after giving each participant receiving benefits under the plan adequate written notice. Benefit provisions are established and may be amended by City Ordinance.

Retirement Income Plan for Deputy Sheriffs and Emergency Rescue Technicians - This plan provides for benefits to be distributed in the case of termination, retirement, death, or disability to deputy sheriffs and emergency rescue technicians. Distribution options include cash distribution, annuities, or a combination of the two. Benefit provisions are established and may be amended by City Ordinance.

CITY OF ALEXANDRIA, VIRGINIA
Notes to Financial Statements
June 30, 2003

Exhibit XII
(Continued)

NOTE 19. ACCOUNTING CHANGES

The City adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures* during the fiscal year ended June 30, 2003. There is no impact on the financial statements.

**REQUIRED
SUPPLEMENTARY
INFORMATION
(unaudited)**

In accordance with the Governmental Accounting Standards Board Statements No. 25, No. 27 and No. 34, the following information is a required part of the basic financial statements.

CITY OF ALEXANDRIA, VIRGINIA
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2003

Exhibit XIII

	<u>Original Budget</u>	<u>Budget as Amended</u>	<u>Actual</u>	<u>Variance from Amended Budget - Positive (Negative)</u>
Revenues:				
General Property Taxes.....	\$ 208,856,000	\$ 208,856,000	\$ 218,939,362	\$ 10,083,362
Other Local Taxes.....	84,118,000	84,118,000	88,119,848	4,001,848
Permits, Fees, and Licenses.....	4,000,000	4,000,000	2,902,316	(1,097,684)
Fines and Forfeitures.....	3,882,000	3,882,000	3,939,648	57,648
Use of Money and Property.....	6,271,000	6,550,500	5,246,678	(1,303,822)
Charges for Services.....	9,863,800	9,463,800	9,178,249	(285,551)
Intergovernmental Revenues.....	45,905,800	46,447,585	46,755,221	307,636
Miscellaneous.....	458,000	458,000	581,673	123,673
Total Revenues	\$ 363,354,600	\$ 363,775,885	\$ 375,662,995	\$ 11,887,110
Other Financing Sources:				
Operating Transfers In.....	\$ -	\$ 471,480	\$ 893,601	\$ 422,121
Total Other Financing Sources	\$ -	\$ 471,480	\$ 893,601	\$ 422,121
Total Revenues and Other Financing Sources	\$ 363,354,600	\$ 364,247,365	\$ 376,556,596	\$ 12,309,231
Expenditures:				
City Council.....	\$ 455,708	\$ 455,708	\$ 418,242	\$ 37,466
City Manager.....	1,820,099	1,436,054	1,416,739	19,315
Office on Women.....	982,837	1,024,492	1,011,617	12,875
Citizens Assistance.....	538,718	559,648	549,963	9,685
Office of Management and Budget.....	913,849	713,849	704,324	9,525
18th Circuit Court.....	1,162,007	1,172,385	1,048,439	123,946
18th General District Court.....	85,493	90,048	78,708	11,340
Juvenile And Domestic Relations Court.....	33,948	33,948	23,268	10,680
Commonwealth's Attorney.....	2,042,879	2,118,982	1,953,827	165,155
Sheriff.....	17,571,642	19,162,218	19,159,547	2,671
Clerk of Courts.....	1,306,510	1,464,800	1,237,277	227,523
Other Correctional Activities.....	3,236,126	3,553,614	3,480,058	73,556
Court Services.....	585,994	586,841	586,207	634
Human Rights.....	341,925	430,918	411,479	19,439
Internal Audit.....	197,963	200,675	172,425	28,250
Information Technology Services.....	5,971,390	6,199,525	5,458,926	740,599
City Clerk and Clerk of Council.....	334,262	336,920	334,552	2,368
Finance.....	7,037,172	7,557,215	7,093,419	463,796
Real Estate Assessments.....	980,950	980,950	905,865	75,085
Personnel.....	2,221,865	2,205,897	2,105,747	100,150
Planning and Zoning.....	5,238,021	5,661,329	5,322,999	338,330
City Attorney.....	1,402,831	1,902,831	1,847,505	55,326
Registrar of Voters.....	887,928	904,969	822,640	82,329
General Services.....	9,013,490	9,360,617	9,348,029	12,588
Transportation and Environmental Services.....	20,334,156	22,293,172	21,669,063	624,109
Transit Subsidies.....	3,628,778	3,688,778	3,628,477	60,301
Fire.....	26,746,272	27,272,124	27,458,007	(185,883)
Police.....	37,841,737	37,962,793	37,920,232	42,561
Office of Housing.....	1,200,460	942,249	874,222	68,027
Mental Health/Mental Retardation and Substance Abuse.....	601,688	545,688	545,688	-
Health.....	6,926,459	7,169,160	6,705,848	463,312
Human Services.....	6,142,741	7,242,976	7,759,687	(516,711)
Human Services Contributions.....	875,500	875,500	870,500	5,000
Office of Historic Alexandria.....	2,145,583	2,247,776	2,136,773	111,003
Recreation and Cultural Activities.....	15,044,602	15,180,556	14,936,481	244,075
Other Educational Activities.....	13,246	13,246	13,246	-
Non Departmental (including debt service).....	26,287,433	24,559,049	24,363,051	195,998
Total Expenditures	\$ 212,152,262	\$ 218,107,500	\$ 214,373,077	\$ 3,734,423
Other Financing Uses:				
Operating Transfers Out.....	\$ 35,559,352	\$ 47,368,855	\$ 47,047,187	\$ 321,668
Transfers Out - Component Units.....	125,459,610	125,419,724	125,304,498	115,226
Total Other Financing Uses	\$ 161,018,962	\$ 172,788,579	\$ 172,351,685	\$ 436,894
Total Expenditures and Other Financing Uses....	\$ 373,171,224	\$ 390,896,079	\$ 386,724,762	\$ 4,171,317
Revenue and Other Financing Sources				
Over/(Under) Expenditures and Other Financing Uses	\$ (9,816,624)	\$ (26,648,714)	\$ (10,168,166)	\$ 16,480,548
Fund Balances at Beginning of Year.....	68,228,659	68,228,659	68,228,659	-
Increase/(Decrease) in Reserve for Inventory	-	-	57,235	57,235
FUND BALANCES AT END OF YEAR	\$ 58,412,035	\$ 41,579,945	\$ 58,117,728	\$ 16,537,783

(See Accompanying Independent Auditors' Report and Notes to Schedules)

CITY OF ALEXANDRIA, VIRGINIA
Budgetary Comparison Schedule
Special Revenue Fund
For the Year Ended June 30, 2003

Exhibit XIV

	<u>Original Budget</u>	<u>Budget as Amended</u>	<u>Actual</u>	<u>Variance From Amended Budget Positive (Negative)</u>
Revenues:				
Use of Money and Property.....	\$ 6,000	\$ 121,372	\$ 107,318	\$ (14,054)
Charges for Services.....	5,592,172	5,546,157	5,545,703	(454)
Permits, Fees and Licenses.....	-	288,657	1,632,661	1,344,004
Intergovernmental Revenues.....	35,619,053	65,466,263	38,400,925	(27,065,338)
Miscellaneous.....	563,893	2,772,041	2,268,791	(503,250)
Total Revenues.....	\$ 41,781,118	\$ 74,194,490	\$ 47,955,398	\$ (26,239,092)
Other Financing Sources:				
Operating Transfers In.....	\$ 21,375,447	\$ 21,926,017	\$ 20,947,187	\$ 978,830
Total Other Financing Sources.....	\$ 21,375,447	\$ 21,926,017	\$ 20,947,187	\$ 978,830
Total Revenues and Other Financing Sources.....	\$ 63,156,565	\$ 96,120,507	\$ 68,902,585	\$ (27,217,922)
Expenditures:				
City Manager.....	\$ -	\$ 400,000	\$ 136,024	\$ 263,976
Office of Women.....	419,887	433,424	394,814	38,610
Citizens Assistance.....	5,400	44,381	4,281	40,100
Commonwealth's Attorney.....	457,508	744,042	349,162	394,880
Sheriff.....	1,303,867	1,385,478	1,347,298	38,180
Clerk of Courts.....	-	40,324	-	40,324
Law Library.....	122,865	122,865	118,359	4,506
Other Correctional and Judicial Activities.....	332,450	332,450	199,190	133,260
Human Rights.....	25,000	25,000	-	25,000
Finance.....	-	45,568	45,568	-
Court Services.....	259,295	288,807	268,676	20,131
Personnel.....	6,000	6,000	2,043	3,957
General Services.....	-	2,235,238	1,735,238	500,000
Transportation and Environmental Services.....	447,302	936,169	871,347	64,822
Fire.....	294,500	2,973,297	915,951	2,057,346
Police.....	138,744	3,699,963	1,918,056	1,781,907
Office of Housing.....	1,920,847	17,443,421	4,248,698	13,194,723
Mental Health/Mental Retardation and Substance Abuse...	21,875,736	23,966,935	21,007,156	2,959,779
Health.....	-	67,625	60,316	7,309
Human Services.....	35,183,856	37,008,540	34,695,968	2,312,572
Office of Historic Alexandria.....	193,321	545,305	185,007	360,298
Recreation and Cultural Activities.....	169,987	224,137	151,660	72,477
Non Departmental.....	-	2,588,782	-	2,588,782
Total Expenditures.....	\$ 63,156,565	\$ 95,557,751	\$ 68,654,812	\$ 26,902,939
Other Financing Uses:				
Operating Transfers Out.....	\$ -	\$ 562,756	\$ 562,756	\$ -
Total Other Financing Uses.....	\$ -	\$ 562,756	\$ 562,756	\$ -
Total Expenditures and Other Financing Uses.....	\$ 63,156,565	\$ 96,120,507	\$ 69,217,568	\$ 26,902,939
Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses.....	\$ -	\$ -	\$ (314,983)	\$ (314,983)
Fund Balances at Beginning of Year.....	\$ -	\$ -	\$ 13,822,470	\$ 13,822,470
FUND BALANCES AT END OF YEAR.....	\$ -	\$ -	\$ 13,507,487	\$ 13,507,487

(See Accompanying Independent Auditors' Report and Notes to Schedules)

CITY OF ALEXANDRIA, VIRGINIA
Notes to Budgetary Comparison Schedules
June 30, 2003

Exhibit XV

(1) SUMMARY OF SIGNIFICANT BUDGET POLICIES

The City Council annually adopts budgets for the General Fund and Special Revenue Fund of the primary government. All appropriations are legally controlled at the departmental level for the General Fund and Special Revenue Fund. On June 12, 2002, the City Council approved the original adopted budget and on June 24, 2003 approved the revised budget reflected in the financial statements.

The budgets are integrated into the accounting system, and the budgetary data, as presented in the financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the accompanying Budgetary Comparison Schedule for the General and Special Revenue Funds presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

(2) MATERIAL VIOLATIONS

Human Services and the Fire Department over spent their General Fund budget for fiscal year 2003. There were sufficient excess revenues available to cover the overage. There were no other material violations of the annual appropriated budget for the General and Special revenue Funds for the fiscal year ended June 30, 2003. There were no additional excesses of budgetary expenditures for the period.

CITY OF ALEXANDRIA, VIRGINIA
Public Employee Retirement Systems - Primary Government
Required Supplementary Information
(See Accompanying Independent Auditors' Report)

Exhibit XVI

SCHEDULE OF FUNDING PROGRESS

	(1)	(2)	(3)	(4)	(5)	(6)	
		Actuarial	Unfunded	Funded	Annual	UAAL as a	
Actuarial	Actuarial	Accrued	AAL	Ratio	Covered	Percentage of	
Valuation	Value of	Liability	(UAAL)	(1/2)	Payroll	Covered	
Date	Assets	(AAL)	(2)-(1)		Payroll	Payroll	
						((2-1)/5)	
Pension Plan	06/30/1998	\$ 43,099,029	\$ 49,769,673	\$ 6,670,644	86.6%	\$ 223,081	2,990%
For Fire	06/30/1999	42,250,482	47,790,867	5,540,385	88.4%	117,276	4,724%
And Police	06/30/2000	41,280,800	47,687,399	6,406,599	86.6%	54,818	11,687%
	06/30/2001	40,324,903	47,257,982	6,933,079	85.5%	55,594	12,471%
	06/30/2002	39,116,353	45,244,734	6,128,381	86.5%	60,566	10,119%
	06/30/2003 *	37,406,204	43,868,247	6,462,043	85.3%	64,787	9,974% **
Virginia	06/30/1996	\$ 109,509,563	\$ 117,312,587	\$ 7,803,024	93.4%	\$ 55,987,98	14%
Retirement	06/30/1998	152,771,352	146,673,945	(6,097,407)	104.2%	62,977,47	(10%)
System	06/30/1999	177,646,967	161,557,398	(16,089,569)	110.0%	62,796,40	(26%)
	06/30/2000	206,562,426	161,915,444	(44,646,982)	127.6%	65,735,93	(68%)
	06/30/2001	227,576,669	178,701,974	(48,874,695)	127.4%	71,829,94	(68%)
	06/30/2002	235,660,890	201,292,189	(34,368,701)	117.1%	78,337,71	(44%)

* Estimated

** The Pension Plan for Fire and Police is a closed plan with only one active participant.

A schedule of Funding Progress for City Supplemental Retirement pension plan is not required because it uses the aggregate actuarial cost method, where actuarial accrued liabilities are not identified or separately amortized. They are amortized through normal cost.

Six-year historical information of City's defined benefit pension plans is presented to help users assess each plan's funding status on a going concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

Analysis of dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of each plan's funding status on a going concern basis. Analysis of this percentage over time indicates whether the plan is financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller the percentage, the stronger the plan.

SCHEDULES OF EMPLOYER CONTRIBUTIONS

	City Supplemental			Pension Plan for Police and Fire		
	Actuarial	Annual	Percentage	Actuarial	Annual	Percentage
	Date	Required	Contributed	Date	Required	Contributed
		Contribution			Contribution	
For Defined Benefit Pension Plans	06/30/1999 **	\$ 1,028,867	66.6%	06/30/1998	\$ 851,189	82.2%
	06/30/2000	1,546,936	47.5%	06/30/1999	850,227	82.3%
	06/30/2001	2,370,343	35.8%	06/30/2000	752,554	93.0%
	06/30/2002	2,579,707	33.2%	06/30/2001	929,905	75.3%
	06/30/2003	3,229,768	28.9%	06/30/2002	1,088,844	64.3%
				06/30/2003	1,033,916	87.2%
	Virginia Retirement System					
	06/30/1998	\$ 3,511,953	100.0%			
	06/30/1999	3,734,259	100.0%			
	06/30/2000	3,807,027	100.0%			
	06/30/2001	1,447,935	100.0%			
	06/30/2002	765,204	100.0%			
	06/30/2003	626,701	100.0%			

** Only five years of information was available for this plan. This will be expanded when information becomes available.



OTHER SUPPLEMENTARY INFORMATION



Agency Funds

Agency Funds are City custodial funds used to provide accountability of client monies for which the City is custodian.

Human Services Special Welfare Account – This fund accounts for the current payments of supplemental security income for foster children.

Human Services Dedicated Account – This fund accounts for back payments of supplemental security income for foster children.

Industrial Development Authority Agency Fund – This fund accounts for Industrial Development Authority bond issuance fees and expenses, for which the City acts in a custodial manner.

CITY OF ALEXANDRIA, VIRGINIA
Combining Schedule of Changes in Assets and Liabilities - Agency Funds
For the Fiscal Year Ended June 30, 2003

Schedule 1

	Balance	Additions	Deductions	Balance
	July 1, 2002	June 30, 2003	June 30, 2003	June 30, 2003
HUMAN SERVICES SPECIAL WELFARE ACCOUNT				
Assets:				
Cash and Investments with Fiscal Agent.....	\$ 14,232	\$ 64,388	\$ 60,284	\$ 18,336
Liabilities:				
Other Liabilities.....	\$ 14,232	\$ 64,388	\$ 60,284	\$ 18,336
Total Liabilities.....	\$ 14,232	\$ 64,388	\$ 60,284	\$ 18,336
HUMAN SERVICES DEDICATED ACCOUNT				
Assets:				
Cash and Investments with Fiscal Agent.....	\$ 7,982	\$ 563	\$ 3,849	\$ 4,696
Liabilities:				
Other Liabilities.....	\$ 7,982	\$ 563	\$ 3,849	\$ 4,696
Total Liabilities.....	\$ 7,982	\$ 563	\$ 3,849	\$ 4,696
INDUSTRIAL DEVELOPMENT AUTHORITY				
Assets:				
Equity in Pooled Cash and Investments.....	\$ 507,912	\$ 197,791	\$ 194,656	\$ 511,047
Liabilities:				
Other Liabilities.....	\$ 507,912	\$ 197,791	\$ 194,656	\$ 511,047
Total Liabilities.....	\$ 507,912	\$ 197,791	\$ 194,656	\$ 511,047
TOTAL ALL AGENCY FUNDS				
Assets:				
Equity in Pooled Cash and Investments.....	\$ 507,912	\$ 197,791	\$ 194,656	\$ 511,047
Cash and Investments with Fiscal Agent.....	22,214	64,951	64,133	23,032
Total Assets.....	\$ 530,126	\$ 262,742	\$ 258,789	\$ 534,079
Liabilities:				
Other Liabilities.....	\$ 530,126	\$ 262,742	\$ 258,789	\$ 534,079
Total Liabilities.....	\$ 530,126	\$ 262,742	\$ 258,789	\$ 534,079

CITY OF ALEXANDRIA, VIRGINIA
Schedule of Cash Flows - Component Unit -
Alexandria Transit Company
For the Year Ended June 30, 2003

Schedule 2

Cash Flows from Operating Activities:	
Cash Received From Customers.....	\$ 1,808,715
Cash Payments to Suppliers for Goods and Services.....	(1,899,088)
Cash Payments to Employees for Services.....	(4,718,999)
Net Cash Used for Operating Activities.....	<u>\$ (4,809,372)</u>
Cash Flows from Noncapital Financing Activities:	
Transfers-In from Primary Government.....	\$ 4,834,200
Cash Received from Nonoperating Grant.....	136,418
Net Cash Provided by Noncapital and Related Financing Activities.....	<u>\$ 4,970,618</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets.....	\$ (65,951)
Net Cash Used for Capital and Related Financing Activities.....	<u>\$ (65,951)</u>
Net Increase in Cash and Cash Equivalents.....	\$ 95,295
Cash and Cash Equivalents at Beginning of Year.....	<u>2,324,404</u>
Cash and Cash Equivalents at End of Year.....	<u><u>\$ 2,419,699</u></u>

Reconciliation of Operating Loss to Cash Used for	
Operating Activities:	
Operating Loss.....	<u>\$ (5,793,684)</u>
Adjustments to Reconcile Operating Loss to Net Cash	
Used for Operating Activities:	
Depreciation Expense.....	\$ 943,143
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable.....	15,825
(Increase) in Inventory of Supplies.....	(25,388)
Decrease in Prepaid Expenses.....	570
(Decrease) in Accounts Payable.....	(11,374)
Increase in Accrued Liabilities.....	36,091
Increase in Other Liabilities.....	25,445
Total Adjustments.....	<u>\$ 984,312</u>
Net Cash Used for Operating Activities.....	<u><u>\$ (4,809,372)</u></u>

Noncash Capital and Related Financing Activities:
During Fiscal Year 2003, the City transferred capital assets totaling \$3,443,562 to Alexandria Transit.



STATISTICAL SECTION

CITY OF ALEXANDRIA, VIRGINIA
General Governmental Expenditures by Function
Last Ten Fiscal Years

TABLE I

Fiscal Year	General Government	Judicial Administration	Public Safety	Public Works	Health and Welfare	Parks		Community Development	Education	Capital Projects	Debt Service	Transit Subsidies	Total
						Recreation & Culture	Development						
1994	\$ 18,961,931	\$ 8,119,098	\$ 53,104,029	\$ 22,094,868	\$ 44,000,562	\$ 12,822,185	\$ 5,708,894	\$ 85,632,221	\$ 15,971,143	\$ 11,611,763	\$ 2,809,939	\$ 280,836,633	
1995	20,059,127	8,633,141	54,605,853	21,686,397	47,110,961	13,143,050	6,296,470	88,224,325	14,962,695	12,310,320	3,727,824	290,760,163	
1996	22,849,352	9,756,306	56,665,904	23,403,958	48,619,467	14,074,527	6,794,157	93,792,597	20,715,242	10,934,791	5,296,325	312,902,626	
1997	22,649,041	10,151,461	59,353,935	23,461,350	53,631,151	13,772,882	7,218,123	102,462,593	18,944,011	9,996,413	4,607,952	326,248,912	
1998	23,511,187	11,265,740	63,447,360	24,205,854	56,682,171	14,503,767	9,488,803	108,897,023	29,939,839	9,511,626	3,352,370	354,805,740	
1999	24,449,390	11,675,184	64,995,148	24,374,398	60,466,818	14,921,155	8,436,783	114,123,738	42,985,188	11,695,250	2,613,857	380,736,909	
2000	27,270,855	11,548,768	66,460,705	27,434,919	61,993,092	15,854,569	9,259,067	119,738,608	43,004,361	8,995,565	2,027,547	393,588,056	
2001	27,990,571	10,999,706	71,933,947	27,418,389	61,032,694	17,355,063	8,104,089	130,735,051	29,959,909	12,509,808	3,515,994	401,555,221	
2002	30,156,042	12,015,555	78,168,159	27,457,482	66,400,172	20,374,441	9,541,650	138,267,527	51,397,503	16,136,876	2,755,665	452,671,072	
2003	31,930,596	12,452,735	86,617,443	29,825,856	71,455,572	23,049,489	12,090,455	146,098,681	53,294,161	17,600,620	3,628,477	488,044,085	

Includes expenditures for the General Fund, Special Revenue Fund and Capital Projects Fund of the Primary Government and expenditures for the School Board and Library Component Units.

CITY OF ALEXANDRIA, VIRGINIA
General Governmental Revenues and Other Financing Sources
Last Ten Fiscal Years

TABLE II

Fiscal Year	General Property Taxes	Other Local Taxes	Permits Fees & Licenses	Fines & Forfeitures	Use of Money & Property	Charges for Services	Intergovernmental Revenues	Sale of Surplus Property	Miscellaneous & Non-Revenue Receipts	Total
1994	\$ 149,469,407	\$ 54,129,241	\$ 1,741,711	\$ 3,944,289	\$ 5,818,863	\$ 13,713,094	\$ 54,807,261	\$ 380,878	\$ 4,175,396	\$ 288,180,140
1995	147,179,136 *	59,837,887 *	1,780,013	3,889,875	8,696,630	13,616,085 *	58,936,080	224,300	3,301,774	297,461,780
1996	150,796,382	57,367,755	1,999,200	3,649,423	9,009,110	14,855,462	64,996,772	46,047	3,151,484	305,871,635
1997	155,719,408	58,025,734	2,671,637	3,851,770	7,817,213	15,996,530	70,462,302	138,412	4,787,200	319,470,206
1998	163,481,396	63,160,242	3,189,511	4,237,384	8,027,212	15,934,922	71,871,924	1,482,702	4,397,332	335,782,625
1999	174,452,574	68,947,100	3,330,371	4,740,675	8,376,313	16,274,627	73,940,451	169,180	6,287,525	356,518,816
2000	183,296,264	75,040,938	4,380,592	4,237,420	7,631,426	16,335,524	95,628,230	27,441	8,076,198	394,654,033
2001	189,775,677	81,726,772	4,065,880	4,116,463	11,343,760	16,342,372	94,502,094	226,500	5,525,056	407,624,574
2002	205,145,697	83,959,774	4,220,413	3,931,596	9,908,766	16,199,865	107,687,302	30,050	5,602,843	436,686,306
2003	218,939,362	88,119,848	4,534,977	3,939,648	6,370,174	17,547,013	122,129,788	-	5,210,112	466,790,922

Includes revenues, proceeds from sale of surplus property and proceeds from capital leases for the General, Special Revenue and Capital Projects Funds of the Primary Government and the School Board and Library Component Units.

* Revenues include additional accruals as a result of the implementation of Governmental Accounting Standards Board (GASB) Statement No. 22 during Fiscal Year 1995. These additional accruals are comprised of \$11,612 in General Property Taxes (Penalties and Interest), \$3,356,909 in other Local Taxes and \$40,312 in Charges for Services.

**CITY OF ALEXANDRIA, VIRGINIA
Tax Revenues by Source
Last Ten Fiscal Years**

TABLE III

Fiscal Year	General Property Taxes			Other Local Taxes											Total
	Real Estate	Personal	Penalties and Interest	Local Sales	Utility	Business License	Cable TV Franchise License	Motor Vehicle License	Bank Franchise	Tobacco	Recordation	Transient Lodging	Restaurant Food	Other	
1994	\$ 118,624,267	** \$ 28,639,107	\$ 2,206,033	\$ 13,923,374	\$ 13,404,274	\$ 12,352,130	\$ 442,968	\$ 1,962,824	\$ 569,764	\$ 1,425,200	\$ 1,200,164	\$ 3,132,148	\$ 5,704,652	\$ 11,743	\$ 203,598,64
1995	114,249,561	30,920,789	2,008,786 *	16,751,141 *	14,738,248 *	14,118,651 *	483,174	2,000,917	627,938	1,414,079	875,202	2,766,156	6,011,871	50,510 *	207,017,02
1996	114,489,608	34,017,236	2,289,538	14,631,265	14,026,826	14,070,809	494,074	1,974,082	828,981	1,641,880	851,022	3,007,115	5,797,139	44,562	208,164,13
1997	116,260,580	37,159,733	2,299,095	15,543,633	13,875,737	14,093,577	491,671	1,147,403	811,909	1,769,440	1,026,652	3,325,672	5,897,370	42,670	213,745,14
1998	124,085,617	36,959,003	2,436,776	16,840,794	14,306,024	15,750,740	619,112	2,031,038	880,989	1,702,955	1,311,463	3,478,983	6,194,813	43,331	226,641,63
1999	131,094,190	41,093,457	2,264,927	18,552,625	14,426,824	16,707,988	791,691	2,040,226	1,110,481	1,649,055	2,022,539	4,129,594	7,057,069	459,008 ***	243,399,67
2000	142,401,311	38,435,852	2,459,101	19,802,533	15,034,992	19,022,675	836,041	2,173,654	991,609	1,647,047	1,710,477	5,228,467	7,911,895	681,548 ***	258,337,20
2001	152,560,694	35,222,613	1,992,370	20,730,807	16,937,315	20,762,586	901,777	2,247,172	1,403,375	1,607,292	2,028,522	5,827,803	8,466,964	813,159 ***	271,502,44
2002	164,959,409	38,331,453	1,854,835	20,316,345	17,761,931	22,233,330	1,025,474	2,285,722	1,294,376	1,597,140	2,494,425	5,206,418	8,562,840	1,181,773 ***	289,105,47
2003	186,431,815	30,745,962	1,761,585	21,216,124	17,793,919	23,679,889	978,574	2,313,054	1,922,095	2,083,135	3,262,783	5,241,018	8,792,704	836,553 ***	307,059,21

* Revenues include additional accruals as a result of the implementation of Governmental Accounting Standards Board (GASB) Statement No. 22 during Fiscal Year 1995. These additional accruals are comprised of \$11,612 in Penalties and Interest; \$1,334,532 in Local Sales Taxes; \$1,223,950 in Consumer Utility Taxes and \$23,327 in Emergency-911 tax (Combined in the Utility category); \$766,348 in Business License Taxes; and \$8,752 in Other Local Taxes.

** This amount includes the receipt of real estate taxes from railroad tax settlements.

*** Other Revenues include \$792,025 in Fiscal Year 2003, \$1,139,266 in Fiscal Year 2002, \$762,172 in Fiscal Year 2001, \$655,212 in Fiscal Year 2000 and \$422,874 in Fiscal Year 1999 for Telecommunication Tax.

CITY OF ALEXANDRIA, VIRGINIA
Real Estate Tax Levies and Collections
Last Ten Calendar Years

TABLE IV

Calendar Year	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections and Adjustments	Total Tax Collections and Adjustments	Total Collections as Percent of Current Levy	Outstanding Delinquent Taxes	Outstanding Delinquent Taxes as Percent of Current Levy
1993	\$ 116,783,957	\$ 114,453,443	98.00	\$ 4,623,451	\$ 119,076,894	101.96	\$ 2,695,005	2.31
1994	116,123,123	112,288,685	96.70	6,297,109	118,585,794	102.12	2,215,618	1.91
1995	116,010,479	113,117,609	97.51	2,291,608	115,409,217	99.48	4,046,956	3.49
1996	117,048,707	114,138,753	97.51	2,151,712	116,290,465	99.35	4,081,238	3.49
1997	119,250,138	116,723,834	97.88	2,086,986	118,810,820	99.63	4,234,760	3.55
1998	128,737,116	126,262,191	98.17	3,061,208	129,323,399	100.50	3,450,061	2.68
1999	135,147,210	133,102,406	98.49	2,322,594	135,425,000	100.21	3,270,759	2.42
2000	147,341,076	144,741,182	98.24	2,245,096	146,986,278	99.76	3,459,128	2.35
2001	162,202,917	156,748,721	96.64	2,456,642	159,205,363	98.15	3,792,991	2.34
2002	172,063,782	172,296,444	100.14	2,734,178	175,030,622	101.72	4,794,636	2.79

**CITY OF ALEXANDRIA, VIRGINIA
Personal Property Tax Levies and Collections
Last Ten Calendar Years**

TABLE V

Calendar Year	Total Tax Levy	Commonwealth Reimbursement Levy #	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections and Adjustments	Total Tax Collections and Adjustments	Total Collections as Percent of Current Levy	Outstanding Delinquent Taxes*	Outstanding Delinquent Taxes as Percent of Current Levy
1993	\$ 33,515,189	\$ -	\$ 28,223,436	84.2	\$ 1,013,530	\$ 29,236,966	87.2	\$ 12,356,308	36.9
1994	37,649,972	-	30,634,086	81.4	1,559,914	32,194,000	85.5	14,530,938	38.6
1995	42,737,731	-	33,773,610	79.0	3,835,485	37,609,095	88.0	18,393,641	43.0
1996	46,981,439	-	36,462,056	77.6	4,595,984	41,058,040	87.4	22,153,260	47.2
1997	53,130,876	-	36,972,491	69.6	16,209,512 **	53,182,003	100.1	18,820,013	35.4
1998	52,119,625	-	39,528,946	75.8	4,218,925	43,747,871	83.9	14,601,085	28.0
1999	52,177,876	6,886,615	41,507,247	79.5	1,776,937	43,284,184	83.0	13,521,482	25.9
2000	56,590,687	13,268,024	44,710,787	79.0	3,244,734	47,955,521	84.7	20,238,171	35.8
2001	56,957,274	20,842,070	48,135,759	84.5	17,139,945 **	65,275,704	114.6	8,005,007	14.1
2002	58,477,898	21,122,007	49,216,192	84.2	6,475,691	55,691,883	95.2	7,926,403	13.6

*Delinquent personal property taxes are charged off by authority of existing ordinance.

The City aggressively levies a personal property tax even where individuals and businesses have failed to file. For example, if a business is licensed in the City and fails to file a business personal property tax return, that business is automatically billed on the basis of an assumed \$75,000 in personal property. If a business filed a personal property tax return last year and fails to file a return this year, that business is automatically billed 115 percent of last year's tax levy. If an individual registered his or her automobile last year and fails to register this year, he or she is billed based on last year's registration. If an individual registers his or her vehicle with the department of motor vehicles and fails to register with the City, he or she is automatically billed based on the DMV description of the vehicle. In most cases these personal property tax bills are ultimately reduced or relieved; for example, for individuals who have moved out of the City. Because the validity of these billings cannot be known at the time personal property taxes are levied, they are included in the total tax levy and artificially reduce the collection rate.

**In FY 1998 and FY 2002 additional adjustments, were made to reflect the deletion of certain statutorily assessed non-filer accounts. The criteria for deletion of these accounts was that they were statutorily assessed for more than three years, no decal has been purchased for more than three years, and there is no move-out or disposal date on the account.

Commonwealth reimbursement included in total levy, collections and outstanding taxes

CITY OF ALEXANDRIA, VIRGINIA
Assessed and Estimated Actual Value of Taxable Property
Last Ten Calendar Years

TABLE VI

Tax Year	Real Property		Personal Property		Total		Ratio of Total Assessed to Total Estimated Actual Value
	Assessed Value (\$000)	Estimated Actual Market Value (\$000)	Assessed Value (\$000)	Estimated Actual Market Value (\$000)	Assessed Value (\$000)	Estimated Actual Value (\$000)	
1994	10,818,324	10,818,324	794,045	794,045	11,612,369	11,612,369	100
1995	10,837,314	10,837,314	880,238	880,238	11,717,552	11,717,552	100
1996	10,942,274	10,942,274	992,840	992,840	11,935,114	11,935,114	100
1997	11,170,803	11,170,803	1,106,514	1,106,514	12,277,316	12,277,316	100
1998	11,605,290	11,605,290	1,156,066	1,156,066	12,761,356	12,761,356	100
1999	12,187,520	12,187,520	1,206,755	1,206,755	13,394,275	13,394,275	100
2000	13,295,308	13,295,308	1,260,473	1,260,473	14,555,781	14,555,781	100
2001	14,632,349	14,632,349	1,265,914	1,265,914	15,898,263	15,898,263	100
2002	16,132,989	16,132,989	1,298,649	1,298,649	17,431,638	17,431,638	100
2003	19,348,250	19,348,250	1,334,616	1,334,616	20,682,866	20,686,866	100

CITY OF ALEXANDRIA, VIRGINIA
General Property Tax Rates per \$100 of Assessed Value
Last Ten Calendar Years

TABLE VII

<u>Tax Year</u>	<u>Real Property</u>		<u>Personal Property</u>	
	<u>Real Estate</u>		<u>Motor Vehicles And Tangibles</u>	<u>Machine and Tools</u>
1994	\$ 1.070		\$4.75	\$4.50
1995	1.070		4.75	4.50
1996	1.070		4.75	4.50
1997	1.070		4.75	4.50
1998	1.110		4.75	4.50
1999	1.110		4.75	4.50
2000	1.110		4.75	4.50
2001	1.110		4.75	4.50
2002	1.080		4.75	4.50
2003	1.035		4.75	4.50

The City is autonomous from any city, town or other political subdivision of the Commonwealth of Virginia, and there is no overlapping taxing power with other political subdivisions.

CITY OF ALEXANDRIA, VIRGINIA
2003 Tax Rates for Major Revenue Sources

TABLE VIII

Real Estate Tax	\$1.035 per \$100 assessed value
Personal Property Tax	\$4.50 per \$100 assessed value (machinery and tools) \$4.75 per \$100 assessed value (tangible personal property) \$3.55 per \$100 assessed value (handicap vehicles)
Utility Tax (for residential users)	15% of water service charge 25% of local service charge for telephone \$1.12 plus \$0.012075 of each kwh (\$2.40 maximum) \$1.28 plus \$0.124444 of each CCF of gas delivered (\$2.40 maximum) \$1.28 plus \$0.050909 of each CCF of gas delivered to group meter consumers (\$2.40 maximum per dwelling unit) \$1.28 plus 0.023267 of each CCF of gas delivered to group meter interruptible consumers (\$2.40 maximum per dwelling unit)
Utility Tax (for commercial users)	15% of first \$150 of water service charge 25% of first \$150 of local service charges for telephone \$0.97 plus \$0.004610 of each kwh delivered to commercial consumer \$0.97 plus \$0.003755 of each kwh delivered to industrial consumer \$1.42 plus \$0.050213 of each CCF of gas delivered to commercial or industrial consumer \$4.50 plus \$0.003670 of each CCF of gas delivered to non-residential interruptible gas consumers
Business and Professional Licenses	
Alcoholic Beverages	\$5 - \$1,500
Gross receipts of greater than \$10,000 and less than \$100,000	
Any business	\$50
Gross receipts of \$100,000 or more	
Amusement and Entertainment	\$0.36 per \$100 gross receipts
Professional	\$0.58 per \$100 gross receipts
Renting of Residential Property	\$0.50 per \$100 gross receipts
Renting of Commercial Property	\$0.35 per \$100 gross receipts
Financial Services	\$0.35 per \$100 gross receipts
Personal, Business and Repair Service	\$0.35 per \$100 gross receipts
Retail Merchants	\$0.20 per \$100 gross receipts
Restaurants	\$0.20 per \$100 gross receipts
Contractors	\$0.16 per \$100 gross receipts
Wholesale Merchants	\$0.05 per \$100 total purchases
Public Utilities	
Telephone Co.	\$1.03 per \$100 gross receipts
Telegraph Co.	\$2.00 per \$100 gross receipts
Water, heat, electric and gas companies	\$0.50 per \$100 gross receipts
E-911 Tax	\$0.50 per line per month
Public Rights-of-Way Use Fee	\$0.60 per line per month
Local Sales Tax	1% added to the rate of the state retail tax imposed
Daily Rental Tax	1% on the gross proceeds
Cigarette Tax	\$0.50 on each package of twenty cigarettes
Transient Lodging Tax	5.5% of total amount paid for room rental plus \$1 per night lodging fee
Restaurant Meal Tax	3% on all food and drink
Recordation Tax	
Deed of Bargain and Sale	
Grantor	\$0.50 per \$1,000 of sales price
Grantee	\$0.50 per \$1,000 of sales price
Deed of Trust	\$0.50 per \$1,000 of value

SOURCE: Department of Finance, Revenue Administration

CITY OF ALEXANDRIA, VIRGINIA
Computation of Legal Debt Margin
As of June 30, 2003

TABLE IX

Assessed Value of Real Property, January 1, 2003	<u>\$ 19,348,250,400</u>
Debt Limit: 10 Percent of Assessed Value	\$ 1,934,825,040
Amount of Debt Applicable to Debt Limit:	
General Obligation Bonds	<u>\$143,615,000</u>
Total General Obligation Debt.....	<u>143,615,000</u>
 LEGAL DEBT MARGIN	 <u>\$ 1,791,210,040</u>

Limitations on the Incurrence of General Obligation Debt:

There is no requirement in the Virginia Constitution, the Virginia Statutes, or in the Charter of the City of Alexandria that the issuance of general obligation bonds of the City be subject to approval of the electors of the City at referendum.

Under the City Charter the City Council has full authority to authorize and issue general obligation bonds. The authorizing procedure consists of the passage on first reading of an ordinance authorizing the issuance of the bonds, followed by a notice of public hearing at a subsequent meeting and the final passage on second reading following the public hearing.

The only constitutional limitation on the issuance of general obligation bonds is contained in Article VII, Section 10 of the Virginia Constitution, which states that:

No city or town shall issue any bonds or other interest-bearing obligations which, including existing indebtedness, shall at any time exceed ten per cent of the assessed valuation of real estate in the city or town subject to taxation, as shown by the last preceding assessment for taxes.

CITY OF ALEXANDRIA, VIRGINIA
Ratio of Net General Debt⁽¹⁾ to Assessed Value
and Net Debt Per Capita
Last Ten Fiscal Years

TABLE X

<u>Year</u>	<u>Population (3)</u>	<u>Assessed Value (\$000) (2)</u>	<u>Outstanding Debt</u>	<u>Outstanding Debt as a Percentage of Assessed Value</u>	<u>Outstanding Debt Per Capita</u>	<u>Debt Per Capita as a Percentage of Per Capita Income (4)</u>
1994	116,400	\$ 11,612,369	\$ 60,380,000	0.520	\$ 519	1.34
1995	117,000	11,717,552	52,255,000	0.446	447	1.13
1996	117,300	11,935,114	44,725,000	0.375	381	0.91
1997	117,600	12,277,316	37,610,000	0.306	320	0.73
1998	119,500	12,761,356	30,585,000	0.240	256	0.55
1999	121,700	13,394,275	65,710,000	0.491	540	1.09
2000	123,200	14,555,781	114,690,000	0.788	931	1.72
2001	128,283	15,898,263	107,875,000	0.679	841	1.63
2002	134,000	17,431,638	153,925,000	0.876	1,149	2.11
2003	135,000	20,682,866	143,615,000	0.694	1,064	2.02

(1) Net General Debt includes general obligation bonds and term notes.

(2) Includes real and personal property

(3) SOURCE: Alexandria Department of Planning and Zoning

(4) Per capita income represents data from the United States Department of Commerce, as revised, that is generally two years old.

CITY OF ALEXANDRIA, VIRGINIA
Overlapping Debt & Debt History
June 30, 2003

TABLE XI

The City of Alexandria is autonomous from any county, town, or other political subdivisions of the Commonwealth of Virginia. There is no overlapping general obligation debt or taxing powers. The water system and the sewage treatment plant within the City are operated by a private company and an independent authority, respectively, for which the City has no debt obligations.

The City has never defaulted in the payment of any part of either principal or interest on any debt.

Credit Ratings

Moody's Investors Service	Aaa
Standard & Poor's Corporation	AAA

Paying Agents

The City's coupon bonds and interest coupons are payable at the Chase Manhattan Bank, N.A., New York, New York, or SunTrust Bank in Richmond, Virginia. Registered bonds and interest are payable at the principal corporate trust office of the Chase Manhattan Bank, N.A., New York, New York, or Depository Trust Company, New York, New York, which are the Registrars for bonds of the City of Alexandria.

CITY OF ALEXANDRIA, VIRGINIA
Ratio of Annual Debt Service Expenditures for Net
General Debt⁽¹⁾ to Total General Expenditures
Last Ten Fiscal Years

TABLE XII

Year	Principal	Interest and Other Costs	Total Debt Service	General Expenditures ⁽²⁾	Ratio of Debt Service to General Governmental Expenditures
1994	\$ 7,160,000	\$ 3,123,070	\$ 10,283,070	\$ 280,836,633	3.66%
1995	8,125,000	2,925,739	11,050,739	290,760,163	3.80
1996	7,530,000	11,935,114	10,112,095	312,902,626	3.23
1997	7,115,000	2,174,745	9,289,745	326,248,912	2.85
1998	7,025,000	1,802,610	8,827,610	354,805,740	2.49
1999	4,875,000	1,475,549	6,350,549	380,736,909	1.67
2000	6,020,000	2,846,071	8,866,071	393,588,056	2.25
2001	6,815,000	5,567,314	12,382,314	401,555,221	3.08
2002	8,450,000	7,565,996	16,015,996	452,671,072	3.54
2003	10,310,000	7,173,024	17,483,024	488,044,085	3.59

(1) Net General Debt includes general obligation bonds

(2) Includes expenditures for School Board and Library component units

CITY OF ALEXANDRIA, VIRGINIA
Demographic Statistics
June 30, 2003

TABLE XIII

Population

<u>Calendar Year</u>	<u>Population</u>	<u>Calendar Year</u>	<u>Population</u>
1940	33,523	1980	103,217
1950	61,787	1990	111,183
1960	91,023	2000	128,283
1970	110,938	2003 Estimate	135,000

SOURCE: U.S. Bureau of Census, "General Population Characteristics"

**POPULATION INDICATORS
PER CAPITA INCOME***

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Alexandria	\$34,258	\$35,237	\$37,620	\$38,192	\$40,100	\$41,561	\$44,143	\$45,472	\$48,427	\$49,553
Arlington	\$34,107	\$35,241	\$36,364	\$37,927	\$39,455	\$41,151	\$43,726	\$45,504	\$49,683	\$51,221
Fairfax (includes Fairfax City and Falls Church)	\$33,504	\$35,103	\$36,503	\$37,829	\$39,261	\$41,267	\$44,362	\$48,271	\$51,596	\$53,721
Washington PMSA	\$28,513	\$29,605	\$30,630	\$31,384	\$32,399	\$33,798	\$35,871	\$37,693	\$40,536	\$41,754

*These numbers have been revised by the BEA.

SOURCE: U.S. Bureau of Economic Analysis

CITY OF ALEXANDRIA, VIRGINIA
Property Value, Construction and Bank Deposits
Last Ten Calendar Years
(in thousands)

TABLE XIV

<u>Tax Year</u>	<u>Commercial Construction (1)</u>		<u>Residential Construction (1)</u>		<u>Bank Deposits(2)</u>	<u>Property Value(3)</u>		
	<u>Number of Units</u>	<u>Value (\$000)</u>	<u>Number of Units</u>	<u>Value (\$000)</u>		<u>Commercial</u>	<u>Residential</u>	<u>Total</u>
1993	5	\$8,488	232	\$26,916	\$1,630,814	\$5,561,158	\$5,465,820	\$11,026,978
1994	12	6,207	244	27,629	1,512,697	5,355,328	5,462,996	10,818,324
1995	13	14,254	360	38,432	1,593,160	5,260,736	5,576,578	10,837,314
1996	22	41,355	658	39,611	1,683,956	5,284,168	5,658,106	10,942,274
1997	23	59,865	388	48,401	1,733,243	5,428,427	5,742,376	11,170,803
1998	24	62,707	1,839	142,081	1,965,394	5,728,246	5,882,796	11,611,042
1999	23	43,773	1,300	94,153	1,551,353	6,018,465	6,169,055	12,187,520
2000	6	24,886	1,546	123,374	1,612,925	6,578,366	6,716,942	13,295,308
2001	6	27,785	1,977	172,724	1,852,316	7,058,452	7,573,897	14,632,349
2002	13	552,781	576	83,898	2,532,680	7,243,699	8,889,290	16,132,989

SOURCE: (1) City of Alexandria Fire Department, Code Enforcement Bureau, as reported by applicants for fiscal year
(2) Department of Finance, Revenue Division
(3) Department of Real Estate Assessments, as adjusted

CITY OF ALEXANDRIA, VIRGINIA

Principal Taxpayers

June 30, 2003

TABLE XV

Private Property

<u>Owner's Name</u>	<u>Property</u>	<u>2003 Assessed Value (in millions)</u>	<u>Percentage of Total Assessed Valuation</u>
1. LCOR Alexandria, L.L.C.	Vacant Land/Office Buildings.....	\$ 267.1	1.38%
2. AIMCO Foxchase L.P.	Foxchase Apartments.....	166.3	0.86
3. Southern Towers L.L.C.	Southern Towers Apartments	134.6	0.70
4. Hoffman Buildings L.P.	Hoffman Office Buildings	124.6	0.64
5. SAP II-III Stellar	Oakwood Apartments.....	117.3	0.61
6. Carr Canal Center Properties	Office Building	108.2	0.56
7. Potomac Yard Retail, Inc.	Retail Shopping Center.....	106.4	0.55
8. Hoffman Family L.L.C.	Vacant Land/Office Building.....	90.1	0.50
9. Millbrook Apartments Associates, L.L.C.	Millbrook Apartments.....	80.6	0.42
10. EQR Lincoln Alexandria L.L.C.	Reserve at Potomac Yard	73.0	0.38
11. Patent Owner Corp.	Office Building	71.8	0.37
12. Carlyle Development Corp.	Vacant Land/Office.....	70.7	0.37
13. Landmark Mall L.L.C.	Landmark Mall	66.9	0.35
14. Avalon Properties, Inc.	Avalon Apartments	66.8	0.35
15. Park Center Apts. L.L.C.	Park Center Apartments.....	62.8	0.32
16. Potomac Club Apartments	Potomac Club Residence.....	62.5	0.32
17. Smith Property Holding Three L.P.	Apartments.....	61.6	0.32
18. MVD L.L.C.	Garage/Apartments	61.6	0.32
19. Meridian at Carlyle	Meridian Apartments	59.4	0.31
20. Cousins Prop. Inc.	Office Buildings	58.1	0.30

Public Service Companies

<u>Owner's Name</u>	<u>2003 Assessed Value (in millions)</u>	<u>Percentage of Total Assessed Valuation</u>
1. Mirant Potomac River, LLC	\$ 217.0	1.12%
2. Virginia Electric Power Company.....	120.8	0.94
3. Verizon Virginia, Inc.	101.1	0.52
4. Covanta Alexandria, Arlington, Inc.....	66.5	0.34
5. Richmond, Fredericksburg & Potomac Railway Co.....	47.5	0.25
6. Norfolk Southern Railway Company	39.9	0.21
7. Virginia American Water Company.....	33.3	0.17
8. Washington Gas Light Company	28.8	0.15
9. Potomac Electric Power Company	28.7	0.15
10. Jones Telecommunications of Virginia, Inc.....	19.2	0.10

CITY OF ALEXANDRIA, VIRGINIA
Alexandria City School Board
Demographic Statistics
Last Five Fiscal Years

TABLE XVI

<u>Fiscal Year</u>	<u>Total Enrollment¹</u>	<u>Number Receiving Free or Reduced Meals</u>	<u>Number in English as Second Language</u>	<u>Number Receiving Special Education</u>	<u>Number in Elementary School Gifted and Talented Programs</u>	<u>Number in Middle (6-8) School Gifted and Talented Programs</u>
1999	10,788	5,537	1,395	1,841	678	474
2000	11,245	5,763	1,611	1,918	507	452
2001	11,345	5,567	1,809	1,927	574	447
2002	11,274	5,593	2,090	1,958	547	461
2003	10,979	5,243	2,412 ²	1,949	644	455

¹ As of September 30

² Reflects new method of defining ESL students to be consistent with the federal "No Child Left Behind Act"

SOURCE: City of Alexandria Public School System

CITY OF ALEXANDRIA, VIRGINIA
General Fund
City Departments' Expenditures Detail by Function
For the Fiscal Year Ended June 30, 2003

TABLE XVII

	General Government	Judicial Administration	Public Safety	Public Works	Health and Welfare	Parks Recreation & Culture	Community Development	Education	Transit Subsidies	Debt Service	Total
Expenditures:											
City Council.....	\$ 418,242	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 418,242
City Manager.....	1,416,739	-	-	-	-	-	-	-	-	-	1,416,739
Office On Women.....	1,011,617	-	-	-	-	-	-	-	-	-	1,011,617
Citizens Assistance.....	-	-	549,963	-	-	-	-	-	-	-	549,963
Office of Management and Budget.....	704,324	-	-	-	-	-	-	-	-	-	704,324
18th Circuit Court.....	-	1,048,439	-	-	-	-	-	-	-	-	1,048,439
18th General District Court.....	-	78,708	-	-	-	-	-	-	-	-	78,708
Juvenile and Domestic Relations Courts	-	23,268	-	-	-	-	-	-	-	-	23,268
Commonwealth's Attorney.....	-	1,953,827	-	-	-	-	-	-	-	-	1,953,827
Sheriff.....	-	4,181,802	14,977,745	-	-	-	-	-	-	-	19,159,547
Clerk of Courts.....	-	1,237,277	-	-	-	-	-	-	-	-	1,237,277
Other Correctional Activities.....	-	2,407,820	954,642	-	-	-	-	-	-	117,596	3,480,058
Court Services.....	-	586,207	-	-	-	-	-	-	-	-	586,207
Human Rights.....	411,479	-	-	-	-	-	-	-	-	-	411,479
Internal Audit.....	172,425	-	-	-	-	-	-	-	-	-	172,425
Information Technology Services.....	5,458,926	-	-	-	-	-	-	-	-	-	5,458,926
City Clerk and Clerk of Council.....	334,552	-	-	-	-	-	-	-	-	-	334,552
Finance.....	7,093,419	-	-	-	-	-	-	-	-	-	7,093,419
Real Estate Assessments.....	905,865	-	-	-	-	-	-	-	-	-	905,865
Personnel.....	2,105,747	-	-	-	-	-	-	-	-	-	2,105,747
Planning and Zoning.....	-	-	-	-	-	-	5,322,999	-	-	-	5,322,999
City Attorney.....	1,847,505	-	-	-	-	-	-	-	-	-	1,847,505
Registrar.....	822,640	-	-	-	-	-	-	-	-	-	822,640
General Services.....	2,782,449	-	-	6,565,580	-	-	-	-	-	-	9,348,029
Transportation and Environmental Services.....	-	-	-	21,108,802	-	-	560,261	-	-	-	21,669,063
Transit Subsidies.....	-	-	-	-	-	-	-	-	3,628,477	-	3,628,477
Fire.....	-	-	27,458,007	-	-	-	-	-	-	-	27,458,007
Police.....	-	-	37,920,232	-	-	-	-	-	-	-	37,920,232
Office of Housing.....	-	-	-	-	-	-	874,222	-	-	-	874,222
Mental Health/Mental Retardation and Substance Abuse.....	-	-	-	-	545,688	-	-	-	-	-	545,688
Health.....	-	-	-	-	6,440,730	-	265,118	-	-	-	6,705,848
Human Services.....	-	-	-	-	7,759,687	-	-	-	-	-	7,759,687
Human Services Contributions.....	-	-	-	-	870,500	-	-	-	-	-	870,500
Office of Historic Alexandria.....	-	-	-	-	-	2,136,773	-	-	-	-	2,136,773
Recreation and Cultural Activities.....	-	-	-	-	-	14,936,481	-	-	-	-	14,936,481
Other Educational Activities.....	-	-	-	-	-	-	-	13,246	-	-	13,246
Miscellaneous.....	6,032,119	-	575,549	-	272,359	-	-	-	-	17,483,024	24,363,051
Total Expenditures.....	\$ 31,518,048	\$ 11,517,348	\$ 82,436,138	\$ 27,674,382	\$ 15,888,964	\$ 17,073,254	\$ 7,022,600	\$ 13,246	\$ 3,628,477	\$ 17,600,620	\$ 214,373,077

CITY OF ALEXANDRIA, VIRGINIA

General Fund

Revenues, Expenditures, Encumbrances, Transfers and Changes in Undesignated Fund Balance

For the Fiscal Year Ended June 30, 2003

TABLE XVIII

	<u>Revenues/ Expenditures</u>	<u>Encumbrances</u>	<u>Transfers Out and Other Financing Uses</u>	<u>Total</u>
Revenues:				
General Property Taxes.....	\$ 218,939,362	\$ -	\$ -	\$ 218,939,362
Other Local Taxes.....	88,119,848	-	-	88,119,848
Permits, Fees and Licenses.....	2,902,316	-	-	2,902,316
Fines and Forfeitures.....	3,939,648	-	-	3,939,648
Use of Money and Property.....	5,246,678	-	-	5,246,678
Charges for Services.....	9,178,249	-	-	9,178,249
Intergovernmental Revenues.....	46,755,221	-	-	46,755,221
Miscellaneous.....	581,673	-	893,601	1,475,274
Total Revenues.....	\$ 375,662,995	\$ -	\$ 893,601	\$ 376,556,596
Primary Government Expenditures:				
City Council.....	\$ 418,242	\$ -	\$ -	\$ 418,242
City Manager.....	1,416,739	161	-	1,416,900
Office on Women.....	1,011,617	107	-	1,011,724
Citizens Assistance.....	549,963	9,411	-	559,374
Management and Budget.....	704,324	858	-	705,182
18th Circuit Court.....	1,048,439	-	-	1,048,439
18th General District Court.....	78,708	1,365	-	80,073
Juvenile and Domestic Relations Courts.....	23,268	-	-	23,268
Commonwealth's Attorney.....	1,953,827	-	-	1,953,827
Sheriff.....	19,159,547	8,248	-	19,167,795
Clerk of Courts.....	1,237,277	152,048	-	1,389,325
Law Library.....	-	-	64,865	64,865
Other Correctional Activities.....	3,480,058	9,095	-	3,489,153
Court Services.....	586,207	-	144,749	730,956
Human Rights.....	411,479	4,897	-	416,376
Internal Audit.....	172,425	137	-	172,562
Information and Technology Services.....	5,458,926	507,690	-	5,966,616
City Clerk and Clerk of Council.....	334,552	711	-	335,263
Finance.....	7,093,419	377,469	-	7,470,888
Real Estate Assessments.....	905,865	-	-	905,865
Personnel.....	2,105,747	99,480	-	2,205,227
Planning and Zoning.....	5,322,999	254,850	-	5,577,849
City Attorney.....	1,847,505	-	-	1,847,505
Registrar.....	822,640	17,867	-	840,507
General Services.....	9,348,029	736	-	9,348,765
Transportation and Environmental Services.....	21,669,063	257,930	221,809	22,148,802
Transit Subsidies.....	3,628,477	60,000	-	3,688,477
Fire.....	27,458,007	84,390	-	27,542,397
Police.....	37,920,232	8,407	-	37,928,639
Office of Housing.....	874,222	2,092	94,937	971,251
Mental Health/Mental Retardation/Substance Abuse.....	545,688	-	10,692,361	11,238,049
Health.....	6,705,848	152,221	-	6,858,069
Human Services.....	7,759,687	4,500	9,725,356	17,489,543
Human Services Contributions.....	870,500	-	-	870,500
Office of Historic Alexandria.....	2,136,773	39,081	3,110	2,178,964
Recreation and Cultural Activities.....	14,936,481	47,338	-	14,983,819
Other Educational Activities.....	13,246	-	-	13,246
Miscellaneous.....	24,363,051	285,379	-	24,648,430
Capital Projects.....	-	-	26,100,000	26,100,000
Total Primary Government Expenditures, Encumbrances and Transfers out.....	\$ 214,373,077	\$ 2,386,468	\$ 47,047,187	\$ 263,806,732
Transfers Out to Component Units:				
Library.....	\$ -	\$ -	\$ 5,140,618	\$ 5,140,618
Schools.....	-	-	115,329,680	115,329,680
Transit Subsidies (Alexandria Transit Company).....	-	-	4,834,200	4,834,200
Total Transfers Out to Component Units.....	\$ -	\$ -	\$ 125,304,498	\$ 125,304,498
Total Expenditures, Encumbrances, Transfers Out - Primary Government and Component Units.....				
	\$ 214,373,077	\$ 2,386,468	\$ 172,351,685	\$ 389,111,230
Expenditures, Encumbrances, Transfers Out & Other Financing				
Uses in Excess of Revenues.....				\$ (12,554,634)
FY 2002 Encumbrances Paid in FY 2003.....				3,117,566
Undesignated Fund Balance at Beginning of Year.....				24,545,582
(Increases) Decreases in Designated Fund Balance:				
Operating Budget FY 2003.....		FY 2002	FY 2003	
Operating Budget FY 2004.....		\$ 9,816,624	\$ -	9,816,624
Operating Budget FY 2005.....		3,384,096	6,000,000	(2,615,904)
Compensated Absences.....		-	1,758,449	(1,758,449)
Subsequent Year's Capital Expenditures.....		7,208,635	7,208,635	-
Self-insurance.....		12,300,000	4,200,000	8,100,000
Recycling.....		5,000,000	5,000,000	-
Open Space.....		-	564,323	(564,323)
Incomplete Projects.....		-	953,000	(953,000)
		1,375,987	1,184,951	191,036
Undesignated Fund Balance at End of Year				\$ 27,324,498

CITY OF ALEXANDRIA, VIRGINIA
Miscellaneous Statistical Data
As of June 30, 2003

TABLE XIX

Date of Incorporation 1779
 Date of City Charter 1922
 Form of Government Council-Manager
 Number of Full-Time City Positions
 (Other than Schools) 2,276
 Number of Full-Time Equivalent School Positions 2,089

Land Area

15.75 Square Miles

Elevation

30 Feet Above Sea Level

Location

38.8210 N

77.0861 W

Climate

Average January Temperature 34.9°

Average July Temperature 79.2°

Transportation

Major Highways:

Capital Beltway (I-95)

I-395 (Shirley Highway)

U.S. Route 1

George Washington Memorial Parkway

Rail:

The City is served by the north-south routes of Amtrak. The Virginia Railway Express provides commuter service between Alexandria, Washington, D.C., Fredericksburg, and Manassas, Virginia. Freight lines entering the City are Conrail, CSX Transportation, and Norfolk Southern Company.

Air:

Ronald Reagan Washington National Airport is only minutes away from any location within the City.

Dulles International Airport provides international and longer domestic travel.

Ground:

The City is served by local bus service provided by the Alexandria Transit Company.

The City is served by the local and express buses of the Washington Metropolitan Area Transit Authority (METRO) and the Fairfax Connector.

Individualized service is available through privately owned taxicab fleets.

Port Facilities:

The port of Alexandria has two docks for ocean-going freighters and two major public docks. The 24-foot deep Potomac River channel runs the length of the Alexandria waterfront.

Population

2003 Resident Population 135,000
 Number of Households – 2003 Estimate 65,750
 Household Size (2000 U.S. Census) 2.04 Persons Per Unit
 2000 Population by Race:
 White 59.8%
 Black 22.5%
 Native American 0.3%
 Asian and Pacific Islanders 5.8%
 Multi-Racial 4.2%
 Hispanic 14.7%
 Other 7.4%

2000 Population by Age:

(1-19) 23,376
 (20-34) 42,490
 (35-64) 50,812
 (65 +) 11,605

Registered Voters

June 2003 84,037

Temporary Assistance to Needy Families

(Cases) - Monthly Average, 2003 571

Food Stamps (Cases) - Monthly Average, 2003 1,206

Medicaid (Cases) - Monthly Average, 2003 4,302

Economy

Employed Residents, June 2003 82,409

Unemployed Residents, June 2003 2,127

Unemployed Rate, June 2003 2.5%

Washington PMSA Inflation Rate, based on Consumer Price Index, for FY 2003 2.6%

CITY OF ALEXANDRIA, VIRGINIA

Miscellaneous Statistical Data

As of June 30, 2003

TABLE XIX

(Continued)

Housing	2003	2002
Total Housing Units	68,701	67,339
Type of Single-Family Housing		
Detached	9,121	9,105
Semi-Detached	5,281	5,245
Rowhouse	6,102	6,088
Condo Townhouse	918	906
Total Single-Family	21,422	21,344
Condominium Units	14,728	14,563
Rental Apartments	32,551	31,432
Public Housing and Public Housing		
Replacement Units	1,150	1,150
Average Assessed Value of		
Single Family Homes	\$ 409,613	\$ 333,344
Average Assessed Value of		
Condominiums	\$ 177,079	\$ 135,625
Average Market Rents		
Efficiency	\$ 828	\$ 794
1 Bedroom Apartment	\$ 1,128	\$ 1,105
2 Bedroom Apartment	\$ 1,327	\$ 1,276
3 Bedroom Apartment	\$ 1,494	\$ 1,431

Communications

Television:
 All major networks plus cable
 Local Newspapers:
 Alexandria Gazette Packet (weekly)
 Regional Newspapers:
 Washington Post
 Washington Times
 Northern Virginia Journal
 Radio:
 50 major and minor radio stations in metropolitan area

Miles of Streets, Sidewalks and Alleys

Streets:
 Paved - Lane Miles 513.0
 Unpaved 0.17
 Sidewalks 321
 Alleys, Paved 20.56

Utilities

Telephone various
 Electric Dominion Virginia Power
 Gas Washington Gas
 Water Virginia - American Water Company
 Sewer Alexandria Sanitation Authority
 Cable Comcast Communications

Public Recreation

Acreage 944.2
 Facilities:
 Playground Areas 45
 Swimming Pools 7
 Gymnasiums 16
 Basketball Courts (outdoor) 31
 Tennis Courts 37
 Playing Fields 66

Medical Facilities

	Beds
Hospital:	
INOVA Alexandria Hospital	349
Nursing Homes:	
Goodwin House	80
Hermitage Retirement Community	204
Woodbine Rehabilitation & Healthcare Center	307
Washington House	220
Integrated Health Services of Northern Virginia	111

Libraries

	Number
Central Library	1
Full service branches	3
(Books and other materials for home use as well as electronic and print reference service)	
Local History - Special Collections I	1
Talking book service	1

Education

	Number
Public Schools:	
Elementary	13
Middle	2
Ninth Grade Center	1
High School	1
Secondary Training Educational Program	1
Parochial and Private Schools	11

Higher Education:

Located within the City are the Alexandria campus of Northern Virginia-Community College, Regent University, and the Episcopal Theological Seminary. Nearby institutions include George Mason, George Washington, American, Catholic, Georgetown, and Howard Universities.

Financial Institutions

Commercial Banks	12
Credit Unions	11

Hotels and Motels

	Rooms
Alexandria Towne Motel	27
Alexandria Travelodge	40
Best Western Old Colony Inn	151
Bragg Towers	98
Comfort Inn Landmark	150
Courtyard by Marriot	176
Days Inn	200
Embassy Suites	268
Executive Club Suites	78
Extended Stay America	104
Hampton Inn	80
Hawthorn Suites Hotel	170
Hilton Alexandria Mark Center	500
Hilton Alexandria Old Town	241
Holiday Inn Eisenhower	196
Holiday Inn Select	227
Holiday Inn Hotel & Suites	178
Homestead Village	130
Morrison House	45
Radisson Old Town	253
Residence Inn by Marriott	240
Sheraton Pentagon Suites	193
Sheraton Suites Old Town Alexandria	247
Washington Suites	223
Total	4,215

CITY OF ALEXANDRIA, VIRGINIA
Five Year Summary of General Fund Revenues and Expenditures
As of June 30, 2003

Table XX

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Revenues:					
General Property Taxes.....	\$ 174,452,574	\$ 183,296,264	\$ 189,775,677	\$ 205,145,697	\$ 218,939,362
Other Local Taxes.....	68,947,100	75,040,938	81,726,772	83,959,774	88,119,848
Permits, Fees, and Licenses.....	3,330,371	4,380,592	4,065,880	3,501,475	2,902,316
Fines and Forfeitures.....	4,740,675	4,237,420	4,116,463	3,931,596	3,939,648
Use of Money and Property.....	7,852,531	7,078,467	10,418,646	8,769,357	5,246,678
Charges for Services.....	8,602,357	8,684,519	8,711,053	8,954,310	9,178,249
Intergovernmental Revenues.....	14,175,904	25,606,354	37,679,452	46,601,917	46,755,221
Miscellaneous.....	701,804	705,468	464,686	538,278	581,673
Total Revenues.....	\$ 282,803,316	\$ 309,030,022	\$ 336,958,629	\$ 361,402,404	\$ 375,662,995
Other Financing Sources:					
Operating Transfers In.....	\$ -	\$ -	\$ -	\$ -	\$ 893,601
Total Other Financing Sources.....	\$ -	\$ -	\$ -	\$ -	\$ 893,601
Total Revenues and Other Financing Sources.....	\$ 282,803,316	\$ 309,030,022	\$ 336,958,629	\$ 361,402,404	\$ 376,556,596
Expenditures:					
Current:					
General Government.....	\$ 24,156,017	\$ 26,962,818	\$ 27,643,951	\$ 29,704,416	\$ 31,518,048
Judicial Administration.....	10,929,840	10,604,624	10,066,727	10,779,223	11,517,348
Public Safety.....	63,691,872	64,776,874	69,674,678	75,925,565	82,436,138
Public Works.....	20,037,788	22,627,379	27,418,389	27,174,195	27,674,382
Health and Welfare.....	12,071,463	12,241,432	14,603,243	14,310,933	15,888,964
Parks, Recreation and Culture.....	10,442,357	11,078,547	12,143,260	14,554,083	17,073,254
Community Development.....	4,214,297	4,633,017	5,178,420	6,253,013	7,022,600
Education.....	13,064	13,120	13,017	12,923	13,246
Transit Subsidies.....	2,613,857	2,027,547	3,515,994	2,755,665	3,628,477
Debt Service:					
Principal Retired.....	8,438,268	6,134,298	6,918,641	8,559,463	10,427,596
Interest and Fiscal Charges.....	1,577,606	2,861,267	5,591,167	7,577,413	7,173,024
Total Expenditures.....	\$ 158,186,429	\$ 163,960,923	\$ 182,767,487	\$ 197,606,892	\$ 214,373,077
Other Financing Uses:					
Operating Transfers Out.....	\$ 28,306,506	\$ 40,287,613	\$ 44,866,553	\$ 40,452,214	\$ 47,047,187
Transfers Out - Component Units.....	95,133,228	99,232,856	106,479,088	116,150,049	125,304,498
Total Other Financing Uses.....	\$ 123,439,734	\$ 139,520,469	\$ 151,345,641	\$ 156,602,263	\$ 172,351,685
Total Expenditures and Other Financing Uses.....	\$ 281,626,163	\$ 303,481,392	\$ 334,113,128	\$ 354,209,155	\$ 386,724,762
Revenues and Other Financing Sources Over/					
(Under) Expenditures and Other Financing Uses.....	\$ 1,177,153	\$ 5,548,630	\$ 2,845,501	\$ 7,193,249	\$ (10,168,166)
Fund Balances at Beginning of Year.....	51,039,266	52,226,469	57,998,531	60,833,603	68,228,659
Increase/(Decrease) in Reserve For Inventory.....	10,050	223,432	(10,429)	201,807	57,235
FUND BALANCES AT END OF YEAR.....	\$ 52,226,469	\$ 57,998,531	\$ 60,833,603	\$ 68,228,659	\$ 58,117,728

CITY OF ALEXANDRIA, VIRGINIA
Summary of Debt Service
2004 - 2021

Table XXI

Fiscal Year	Principal	Interest	Total
2004	\$ 10,795,000	\$ 6,738,617	\$ 17,533,617
2005	9,640,000	6,298,854	15,938,854
2006	9,615,000	5,874,048	15,489,048
2007	8,675,000	5,465,360	14,140,360
2008	8,675,000	5,088,410	13,763,410
2009	8,675,000	4,704,870	13,379,870
2010	7,885,000	4,319,330	12,204,330
2011	7,885,000	3,950,455	11,835,455
2012	7,875,000	3,592,955	11,467,955
2013	7,875,000	3,227,850	11,102,850
2014	7,875,000	2,841,125	10,716,125
2015	7,875,000	2,439,500	10,314,500
2016	7,875,000	2,059,156	9,934,156
2017	7,875,000	1,661,469	9,536,469
2018	7,875,000	1,260,056	9,135,056
2019	7,875,000	858,644	8,733,644
2020	5,875,000	453,613	6,328,613
2021	2,895,000	141,131	3,036,131
Total	\$ 143,615,000	\$ 60,975,443	\$ 204,590,443



SINGLE
AUDIT



2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Honorable Mayor and Members of City Council
City of Alexandria, Virginia:

We have audited the accompanying basic financial statements of the City of Alexandria, Virginia (the City) as of and for the year ended June 30, 2003, and have issued our report thereon dated October 17, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Compliance

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 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 those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The Auditor of Public Accounts of the Commonwealth of Virginia requires us to test the City's compliance with certain matters specified in the Code of Virginia including: budget and appropriation laws; cash and investment laws; conflicts of interest; debt provisions; procurement laws; local retirement systems; unclaimed property; and State Agency requirements for education, Comprehensive Services Act for at-risk youth and families, highway maintenance, social services, and personal property tax relief. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or the *Specifications for Audits of Counties, Cities and Towns*.

Internal Control Over Financial 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 basic financial statements and not to provide assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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.

This report is intended solely for the information and use of management, the Mayor, members of City Council, federal awarding agencies and pass-through entities, and the Auditor of Public Accounts of the Commonwealth of Virginia and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 24, 2003



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2001 M Street, NW
Washington, DC 20036

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

The Honorable Mayor and Members of City Council
City of Alexandria, Virginia:

Compliance

We have audited the compliance of the City of Alexandria, 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, 2003. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

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, 2003.

Internal Control over Compliance

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





Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the accompanying basic financial statements of the City of Alexandria, Virginia (the City) as of and for the year ended June 30, 2003, and have issued our report thereon dated October 24, 2003. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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.

This report is intended solely for the information and use of management, the Mayor, members of City Council, federal awarding agencies and pass-through entities, and the Auditor of Public Accounts of the Commonwealth of Virginia and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 24, 2003

CITY OF ALEXANDRIA
Schedule of Federal Awards
Year Ended June 30, 2003

<u>Federal Grantor/Recipient State Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE		
Pass Through Payments:		
Department of Agriculture and Consumer Services		
Plant and Animal Disease Control	10.025	\$ 9,142
Commodity Food Distribution	10.550	502
Commodity Food Distribution-school	10.555	260,058
Commodity Food Distribution	10.555	183,806
Food Stamp Program	10.561	1,291,493
Department of Education		
Breakfast Program	10.553	447,167
Lunch Program	10.555	1,703,232
Summer Food Program-schools	10.559	99,237
Summer Food Program	10.559	108,259
TOTAL U.S. DEPARTMENT OF AGRICULTURE		<u>\$ 4,102,896</u>
DEPARTMENT OF COMMERCE		
Direct Payments:		
Economic Development Technical Assistance	11.303	\$ 136,024
		<u>\$ 136,024</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Direct Payments:		
Administration for Children, Youth and Families		
Head Start	93.600	\$ 1,766,584
Consolidated Knowledge Development and Application (KD&A) Program	93.230	49,078
Total Direct Payments		<u>1,815,662</u>
Pass Through Payments:		
Consolidated Knowledge Development and Application (KD&A) Program	93.230	38,638
Department of Health:		
Rape Crisis Treatment and Prevention Grant	93.991	91,584
Injury Prevention and Control Research and State and Community Based	93.136	20,854
Department of Mental Health and Mental Retardation:		
Block Grant for Community Mental Health Services	93.958	470,484
Comprehensive Services to Children and Adolescents with		
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118	14,596
Projects for Assistance in Transition from Homelessness	93.150	46,200
Child Care Block Grant	93.575	2,286,222
Prevention and Treatment of Substance Abuse	93.959	1,123,617
Public Health & Soc Serv Emergency Fund	93.003	67,176
Department for the Aging:		
Title IIIB - Supportive Services and Senior Programs	93.044	172,047
Special Programs for the Aging Title III - Disease Prevention	93.043	2,000
Special Programs for the Aging Title IIIG - Prevention of Abuse	93.041	34,060
Special Programs for the Aging Title IIIC - Nutritional Services	93.045	145,306
Department of Social Services:		
Family Preservation and Support Services	93.556	64,542
Temporary Assistance for Needy Families	93.558	1,102,888
Low Income Energy Assistance	93.568	13,363
Adoption Incentive Payments	93.603	2,000
Social Services Block Grant	93.667	2,082,143
Refugee Resettlement	93.566	169,813

**CITY OF ALEXANDRIA
Schedule of Federal Awards
Year Ended June 30, 2003**

Federal Grantor/Recipient State Agency/Program Title	Federal Catalog Number	Expenditures
Refugee and Entrant Assistance	93.576	7,828
Child Care Mandatory and Matching Funds	93.596	1,214,642
Foster Care Title IV - E	93.658	3,056,877
Adoption Assistance	93.659	272,050
Independent Living	93.674	14,732
Medical Assistance Program	93.778	808,825
Nursing Home Screening	93.000	185
Statewide Fraud Program	93.000	35,812
Domestic Violence Program	93.051	114,373
		<hr/>
Total Pass Through Payments		13,472,857
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		<hr/> <u>\$ 15,288,519</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Direct Payments:		
Community Development Block Grant Program, Entitlement Grants	14.218	\$ 1,324,336
Total Direct Payments		<hr/> 1,324,336
Pass Through Payments:		
Regional and Community Development and Planning	14.235	6,496
Emergency Shelter Grants for the Homeless	14.231	40,240
Affordable Housing	14.239	554,650
		<hr/>
Total Pass Through Payments		601,386
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		<hr/> <u>\$ 1,925,722</u>
U.S. DEPARTMENT OF JUSTICE		
Direct Payments:		
Homeland Security	16.999	\$ 1,735,784
Office of Community Oriented Policing Services		
COPS Grants	16.710	12,576
Edward Byrne Memorial State and Local Law Enforcement Assistance	16.580	2,891,199
Total Direct Payments		<hr/> 4,639,559
Pass Through Payments:		
Department of Criminal Justice Services		
Asset Forfeiture Report	16.000	128,961
Community Prosecution	16.609	93,480
Juvenile Accountability Incentive Block Grant	16.523	63,773
Violence Against Women Formula Grants	16.588	133,804
Crime Victim Assistance	16.575	152,067
Law Enforcement Block Grant	16.592	149,966
Total Pass Through Payments		<hr/> 722,051
TOTAL U.S. DEPARTMENT OF JUSTICE		<hr/> <u>\$ 5,361,610</u>

**CITY OF ALEXANDRIA
Schedule of Federal Awards
Year Ended June 30, 2003**

<u>Federal Grantor/Recipient State Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF LABOR		
Pass Through Payments:		
Economic Dislocation and Worker Adjustment Assistance Act		
School-to-Work Opportunities Act of 1994	17.261	\$ 38,006
Workforce Investment Act:		
Employment and Training Administration Pilots	17.261	34,828
Adult Program	17.258	84,297
Youth Activities	17.259	106,035
Dislocated Workers	17.260	813,784
Employment Services Job Training Pilot	17.249	36,935
Department for the Aging-		
Senior Community Service Employment Program	17.235	<u>22,444</u>
TOTAL U.S. DEPARTMENT OF LABOR		<u>\$ 1,136,329</u>
U.S. DEPARTMENT OF TRANSPORTATION		
Pass Through Payments:		
Department of Transportation:		
National Recreational Trails Funding Program	20.219	\$ 17,571
Highway Planning and Construction	20.205	134,973
Sobriety Checkpoints	20.600	<u>119,611</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION		<u>\$ 272,155</u>
U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION		
Direct Payments:		
Title 7, New Charges, Age Discrimination Employment Act	30.002	<u>\$ 1,100</u>
TOTAL U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION		<u>\$ 1,100</u>
U.S. INSTITUTE OF MUSEUM SERVICES		
Direct Payments:		
Museum Conservation	45.301	<u>\$ 8,376</u>
TOTAL U.S. INSTITUTE OF MUSEUM SERVICES		<u>\$ 8,376</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY		
Pass Through Payments:		
State Air Pollution Control Board		
Air Pollution Control Program Grants	66.001	<u>\$ 43,730</u>
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY		<u>\$ 43,730</u>
U.S. DEPARTMENT OF EDUCATION		
Pass Through Payments:		
Department of Education:		
Chapter I		
Financial Assistance to Meet Special Education Needs of Disadvantaged Children-Programs Operated By Local Education Agencies	84.010	\$ 1,977,323

**CITY OF ALEXANDRIA
Schedule of Federal Awards
Year Ended June 30, 2003**

<u>Federal Grantor/Recipient State Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Expenditures</u>
Title VI-B		
Education of Handicapped Children	84.027	1,711,743
Handicapped Preschool Incentive Program	84.173	104,083
Safe and Drug-Free Schools	84.184	8,968
Drug-Free Schools	84.186	48,715
Goals 2000	84.276	7,692
Eisenhower Professional Development State Grants	84.281	61,918
Innovative Education Program Strategies	84.298	131,129
Technology Literacy Challenge Fund	84.318	42,168
Comprehensive School Reform Demonstration	84.332	63,778
State Program Improvement Grants for Children with Disabilities	84.323	30,000
English Language Acquisition Grants	84.365	267,588
Improving Teacher Quality State Grants	84.367	295,590
Vocational Education		
Vocational Education Management System	84.048	233,201
Department of Mental Health and Mental Retardation- Early Intervention - Part H	84.181	<u>135,495</u>
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>\$ 5,119,391</u>
U.S DEPARTMENT OF FEDERAL EMERGENCY MANAGEMENT ASSISTANCE		
Pass Through Payments:		
Emergency Management Assistance	83.503	\$ 23,517
Emergency Management Performance	83.552	10,000
Disaster Assistance	83.516	<u>755,158</u>
TOTAL U.S. DEPARTMENT OF FEDERAL EMERGENCY MANAGEMENT ASSISTANCE		<u>\$ 788,675</u>
OTHER FEDERAL AID		
High Intensity Drug Trafficking Area	98.473	\$ 106,397
Learn and Serve America School and Community Based Programs	94.004	<u>22,871</u>
TOTAL OTHER FEDERAL		<u>129,268</u>
TOTAL FEDERAL ASSISTANCE		<u>\$ 34,313,795</u>

CITY OF ALEXANDRIA, VIRGINIA
Notes to Schedule of Expenditures of Federal Awards
June 30, 2003

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes all federal grant activity of the City of Alexandria, Virginia and its component units during fiscal year 2003. The City's reporting entity is defined in Note 1 of the City's Basic Financial Statements. Federal awards are received directly, as well as passed through other governmental agencies.

This schedule has been prepared on the modified accrual basis of accounting. Expenditures are recorded when the liability is incurred.

RECONCILIATION OF NOTES TO FINANCIAL STATEMENTS TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The City receives and expends federal revenues that are non-grant related and therefore not reportable under the Schedule of Expenditures of Federal Awards. A reconciliation of the Schedule of Expenditures of Federal Awards to Note 13 in the Notes to the Financial Statements, Intergovernmental Revenues, is provided below.

Total Federal Expenditures per Schedule	\$ 34,313,795
Non-Reportable Federal Revenue	5,510,589
Commodities Distribution	<u>(444,366)</u>
Total Federal Revenue per Note 13	<u>\$ 39,380,018</u>

FEDERAL COGNIZANT AGENCY

The Federal Cognizant Agency for the City of Alexandria, Virginia is the United States Department of Health and Human Services.

FOOD STAMPS NON-CASH EXPENDITURES

The City has \$4,200,419 of non-cash expenditures for food stamps issued.

SUBGRANTEES

The City provided the following amounts to subrecipients during FY 2003:

<u>Program Title</u>	<u>CFDA</u>	<u>Amount</u>
HOME	14.218	\$ 6,496
Aging Title IIIB	93.044	9,101
Aging Title IIIC	93.045	9,101
Headstart	93.600	1,766,584

CITY OF ALEXANDRIA, VIRGINIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2003

Summary of Auditors' Results:

Financial Statements

The type of report issued on the financial statements: Unqualified

Internal control over financial reporting

- Material weaknesses identified: None
- Reportable conditions identified that are not considered to be material weaknesses: None reported

Noncompliance material to the financial statements noted: None

Federal Awards

Internal control over major programs

- Material weaknesses identified: None
- Reportable conditions identified that are not considered to be material weaknesses: None reported

The type of report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133: No

Major programs:

- Foster Care Title IV (CFDA 93.658)
- Social Services Block Grant (CFDA 93.667)
- Temporary Assistance for Needy Families (CFDA 93.558)
- Homeland Security (CFDA 16.999)
- Edward Byrne Memorial State and Local Law Enforcement (CFDA 16.580)

Dollar threshold used to distinguish between Type A and Type B programs: \$1,155,426

Auditee qualified as a low-risk auditee under section 530 of OMB Circular A-133: Yes

CITY OF ALEXANDRIA, VIRGINIA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2003

Findings relating to the Financial Statement Reported in Accordance with *Government Auditing Standards*:

None

Findings and Questioned Costs relating to Federal Awards:

None

CITY OF ALEXANDRIA, VIRGINIA
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2002

No findings reported in the prior year.

